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Politics this week

May 6th 2004
From The Economist print edition

America's shame

Reuters

A torrent of photographs and reports showing the **mistreatment of Iraqi detainees** by American forces put pressure on America's Defence Secretary, Donald Rumsfeld, to resign. George Bush appeared on Arab television stations and condemned the abuses. In a further blow, he has had to ask Congress for another $25 billion for military activities in Iraq and Afghanistan.

See article

The American authorities in **Iraq** struck a deal with the insurgents in the besieged rebel town of Fallujah, where a former general in Saddam Hussein's army will now oversee security.

See article

In a turnout of only 34% of registered members of Israel's right-wing ruling Likud party, 60% rejected a plan of **Ariel Sharon**, Israel's prime minister, to remove all Jewish settlements from the Gaza strip. Mr Sharon said he would not resign and might present a revised withdrawal plan.

See article

Muslim fundamentalist terrorists killed two Americans, two Britons, an Australian and a local policeman in **Saudi Arabia's** Red Sea port of Yanbu and wounded another 19 people, mostly local policemen, before being caught. The country's ruler, Crown Prince Abdullah, blamed “Zionists”. The attacks prompted an exodus of western workers.

See article

Zimbabwe's government ordered the closure of **private schools**, claiming that they were raising fees to exclude blacks. Some schools had proposed fee increases of 50%; inflation is 580%. Total school attendance fell by 60% last year in Zimbabwe.

Burundi's main rebel group walked out of a power-sharing government, raising fears of a return to civil war.

Sudan won a seat on the UN's human-rights commission, as its Arab-dominated government continued its policy of ethnic cleansing that has caused 1m black Sudanese to flee their homes in the western region of Darfur.

See article

A curfew was imposed on the **Nigerian** town of Yelwa after at least 67 people—and possibly as many as 200—were killed when Christian militiamen attacked Muslims with machineguns.

Dangerous games

Fears over security at the summer **Olympic Games** intensified when three small bombs went off outside

a central Athens police station. One policeman was injured. Nobody claimed responsibility, though local officials blamed dissident elements left after Greece's government broke up the November 17 terrorist group last year.

Turkey announced that it had foiled an al-Qaeda plot to bomb the NATO summit in Istanbul in late June, due to be attended by George Bush and other NATO leaders. As many as 16 suspects were arrested, although most were later released. Groups linked to al-Qaeda set off bombs in Istanbul last November.

Georgia's president, Mikhail Saakashvili, was given a joyous reception in the breakaway region of Ajaria after its ruling strongman, Aslan Abashidze, fled into exile in Russia.

See article

The president of **Italy's** state-run television network, RAI, resigned in protest at government interference. Lucia Annunziata had promised to quit when the media bill pushed by Silvio Berlusconi's government became law, which it did this week. Critics say the bill strengthens Mr Berlusconi's grip on Italy's media.

A Serb paramilitary known as Legija, suspected of involvement in the killing in March 2003 of **Zoran Djindjic**, Serbia's then prime minister, surrendered unexpectedly. Locals speculate that he might spill the beans on higher-level government and security-service involvement in the assassination, in exchange for a reduced sentence.

Kerry gets a sage

George Bush campaigned extensively in **Ohio**, a crucial “swing state” in this year's election. Meanwhile, Warren Buffett, a legendary investor, agreed to serve as economic adviser to John Kerry.

See article

Mitch Daniels, the former White House budget director, won **Indiana's** Republican primary election and will be their candidate for governor in November.

A report from the National Conference of State Legislatures said that most states were collecting higher **tax revenues than expected**, and were now forecasting surpluses for the current fiscal year. However, the report also stated that most states still face deficits next year.

George Bush and Dick Cheney appeared in private before the commission investigating the **September 11th attacks**. Mr Bush described the meeting as “very cordial”.

Late returns

Indonesia's election results were announced a month after voting was completed. Golkar, the party of the former president, Suharto, came top with 21.6% of the votes, President Megawati Sukarnoputri's party finished second with 18.5%. Earlier, Abu Bakar Basyir, a radical Muslim cleric and suspected leader of Jemaah Islamiah, a regional terrorist network, was rearrested on his release from prison.

See article

Voters in seven of **India's** states went to the polls in the third—and penultimate—phase of general elections, which are set to end on May 10th.

See article

China announced that it will help Pakistan to build a nuclear-power plant. Pakistan's government has approved a draft bill to tighten its rules on the export of nuclear technology.

See article

Thailand sent a further 700 troops and its prime minister to the mainly Muslim south, near the border with Malaysia, after a series of violent clashes.

Their men in Havana

Mexico and Peru recalled their ambassadors in Havana and ordered their Cuban counterparts to leave after Fidel Castro, **Cuba's** Communist president, used his May Day speech to criticise them for siding with the United States in condemning human-rights violations on the island.

See article

Martín Torrijos won a presidential election in **Panama**. He is the son of the military ruler who persuaded the United States to hand the canal over to Panama. Mr Torrijos promised to fight corruption and support free trade with America.

See article

Faced with shortages of gas and electricity, **Argentina's** government launched a plan to encourage consumers to save energy. It also raised energy tariffs by up to 50%; they had been frozen for the past two years.

Radical groups in **Bolivia** started a general strike aimed at forcing President Carlos Mesa to resign, after he approved the export of natural gas to Argentina.

See article

EPA

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Business this week

May 6th 2004
From The Economist print edition

Beer wars

Two of the world's leading brewers squared up to each other in China. British-based **SABMiller's** strategic partnership with **Harbin**, based on a stake of nearly 30% in the country's fourth-largest brewer, was challenged by America's **Anheuser-Busch**, which bought 29% of the Chinese beermaker for HK$1.1 billion ($141m). SABMiller reacted by launching a HK$4.3 billion bid for the whole firm.

See article

Coca-Cola appointed Neville Isdell, a former top executive at the soft-drink giant, as its new chairman and chief executive, to replace Douglas Daft, who retires in the summer. Mr Isdell's recall from retirement ended months of intense speculation about who would take over at Coke.

See article

Disney refused to distribute “Fahrenheit 9/11”, a documentary by Michael Moore that is highly critical of George Bush. The controversial film-maker claimed that Disney feared endangering tax breaks in Florida, where Mr Bush's brother is governor. Disney called the complaint a “PR stunt”.

EasyJet's shares plunged despite the fact that it reduced its pre-tax losses in the half year to the end of March to £27m ($48m) from £48m a year ago. The British low-cost airline warned that stiff competition from other carriers is likely to hit profits in the second half, which includes the lucrative summer season.

Air France successfully acquired control of **KLM** after investors tendered some 90% of shares in the Dutch flag carrier in an offer worth around *euro*850m ($1 billion). The merger creates the world's biggest airline by revenues.

Bill's to pay

Bill Gates, founder and chairman of Microsoft, the world's biggest software firm, decided to settle rather than fight charges brought by regulators for his allegedly failing to inform them of big shareholdings in a rubbish company and a drug firm acquired by a private-investment fund. A “mistake”, pleaded his lawyers. Mr Gates will hand over $800,000.

Hundreds of thousands of computers around the world were struck by “**Sasser**”, a computer worm that takes advantage of a flaw in Microsoft's Windows operating system.

Hitting against the spinning

Frank Quattrone, the leading technology banker of the dotcom era, was convicted of obstructing an investigation into the “spinning” of shares in hot IPOs to favoured clients of Credit Suisse First Boston, his employer in the boom years. A previous trial ended last October after the jury could not agree on a verdict. The former financier is likely to face up to two years in jail.

See article

An American jury ruling means that for many insurers of the **World Trade Centre**, the September 11th

attack will count as a single “occurrence”. Swiss Re, the biggest insurer of the twin towers, will have to make a single payment of $880m. The leaseholders of the WTC towers, headed by Larry Silverstein, a New York property developer, had hoped for a double pay-out.

See article

Rodrigo Rato, formerly Spain's finance minister, was named as the new managing director of the International Monetary Fund. He takes over from Horst Köhler, who resigned in March to run for president of Germany.

Scotland expands

Royal Bank of Scotland, Britain's second largest, continued to expand its presence in America with the $10.5 billion purchase of **Charter One**. The acquisition of the Cleveland-based bank will extend RBS's American operations, which are concentrated in the north-east, into the mid-west.

See article

Profits at **Credit Suisse**, Switzerland's second-largest bank, rocketed in the first quarter to SFr1.9 billion ($1.5 billion), compared with SFr279m a year before. **UBS**, Europe's biggest bank, doubled its profits in the quarter, making SFr2.4 billion. Both enjoyed handsome returns from asset-management and trading.

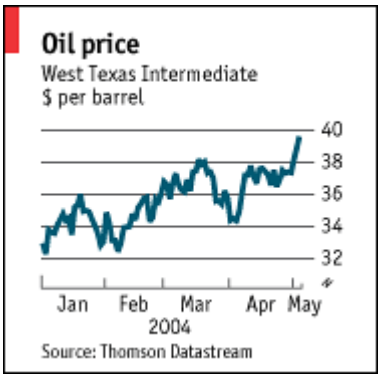
Postbank, Germany's most popular retail bank and a subsidiary of Deutsche Post, said it would list on the stock exchange in June. Deutsche Bank, the country's largest private-sector bank, is rumoured to want a 20% stake.

MBNA, an American credit-card company, emerged as front-runner in the contest to buy **Egg**, a British internet bank. Egg also has a large credit-card business which MBNA would like to acquire in order to take advantage of the booming demand for loans in Britain.

Well pricey

Oil prices soared to nearly $40 a barrel—a 13½-year high. The killing of five foreign workers in an attack on a Saudi Arabian chemical plant heightened fears of terrorist attacks on oil facilities in the Middle East. Low American fuel stocks also played a part.

See article



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Iraq

Resign, Rumsfeld

May 6th 2004
From The Economist print edition

Responsibility for errors and indiscipline needs to be taken at the top

Reuters

YOU are fighting against international terrorists in a battle that both they and you describe as being one about values. You fight a war against Saddam Hussein at your initiative, not his, and you say that it is a war about law, democracy, freedom and honesty. A big metaphorical banner hangs above both wars proclaiming that your aim is to bring freedom, human rights and democracy to the Arab world. All of that sets admirably high standards for the conduct of your forces as well as of your government itself. Now, however, some of your own armed forces are shown to have fallen well below those standards. What do you do?

One answer is exactly what George Bush has done in response to revelations of torture and humiliating treatment of Iraqi prisoners at the Abu Ghraib jail (see article): to make it clear, in public, that you find such action abhorrent and unacceptable, and that the perpetrators of it will be punished. That has also been the approach of the British government in response to the publication of photographs that may well be fakes but that could nevertheless indicate that genuine abuses have taken place (see article). Yet such statements are not enough, especially in the American case. The scandal is widening, with more allegations coming to light. Moreover, the abuse of these prisoners is not the only damaging error that has been made and it forms part of a culture of extra-legal behaviour that has been set at the highest level. Responsibility for what has occurred needs to be taken—and to be seen to be taken—at the highest level too. It is plain what that means. The secretary of defence, Donald Rumsfeld, should resign. And if he won't resign, Mr Bush should fire him.

Why he should go

That recommendation will elicit several different responses. One, from critics of the war, will be to point out that the highest level is in fact held by Mr Bush, and that it is the president who should go. The answer is that the electorate has a chance to dismiss Mr Bush in November, while Mr Rumsfeld is an unelected official who, if he is loyal to Mr Bush, ought to want to take the bullet in order to protect his boss. Another response, though, will be to say that the expulsion of Mr Rumsfeld would be disproportionate: wars always bring some abuses, for the soldiers who take part in them have been trained to kill, and the important question is whether the abuses are properly punished when they occur. A third response would be a cynical one: perhaps he should go, it may be said, but he won't. It's an election year. Get real.

The cynics may be proved right; they usually are. But these are exceptional circumstances. The pictures of abuse, especially the one on our cover of the hooded man wired as if for electrocution, stand an awful chance of becoming iconic images that could haunt America for years to come, just as the famous photograph of a naked girl running during a napalm attack did during the Vietnam war. One way of dealing with that risk is by countering it with your own iconic act: ejecting the man at the head of the Pentagon, the man most identified with America's use of military power during the past three years. He is also, however, the man most identified with the wider culture to which these abuses may be connected.

That approach was epitomised by the setting up of a prison camp at Guantánamo Bay in Cuba in 2001. The decision to detain combatants caught in Afghanistan for an indefinite period, with no access to lawyers and no legal redress, was understandable as a short-term response to the threat of terrorism and to ignorance about who might actually be terrorists, but it was nevertheless both wrong and

disastrous for America's reputation. It was wrong because it violated the very values and rule of law for which America was supposedly fighting, and soon produced evidence of double standards: some American citizens captured in Afghanistan were allowed to stand trial in American courts in the normal way, but such rights were denied to mere foreigners, every single one of whom was labelled as a dangerous terrorist by Mr Rumsfeld, regardless of any evidence. It has been disastrous for America's reputation because of that hypocrisy but also because it has become a symbol of a “we'll decide” arrogance.

The Geneva conventions that have governed the treatment of prisoners of war for decades were waved aside. And the argument used to justify America's rejection of the new International Criminal Court—that its soldiers would be vulnerable to unreasonable persecution, with necessary military actions defined as crimes—looked ever more hollow. Thanks to Guantánamo, critics could argue that America really does need the check of the ICC, and that its claim that abuses would readily be dealt with in domestic courts was also hollow.

The domestic courts are now gradually taking on the issues raised by Guantánamo, with a ruling awaited from the Supreme Court. And the promise by Mr Bush and Mr Rumsfeld this week that abuses in Iraq will be punished is no doubt sincere. It may be that the shoulder-shrugging pragmatists are right when they say that abuses are an inevitable consequence of war; and it may be that they would have happened regardless of Guantánamo. But the culture that it represented, with all prisoners considered guilty until proven innocent, with dubious interrogation methods widely considered to be condoned, could well have had an influence on the attitudes and behaviour of lower ranks. To stem such an influence right now, and to offer an indubitable demonstration to all Iraqis of the importance America places on eliminating such abuse, Mr Rumsfeld must take responsibility.

To June 30th and January 2005

Some may worry that a change of defence secretary now would further endanger the effort in Iraq. The opposite is the case, for although Mr Rumsfeld is rightly credited with a successful steering of the conventional war a little over a year ago, he and his team have also been responsible for many of the blunders since then: appalling post-war planning, inadequate troop numbers, excessive deBaathification, and more. For that reason, if he were to go it would be unwise to replace him simply with one of his own team, such as Paul Wolfowitz.

As the recently retired British envoy to Iraq, Sir Jeremy Greenstock, writes in this issue (see article), nothing is easy in an Iraq mired in violence and with fractured and volatile political groupings. But the political course now set, of handing more authority to a new, UN-picked interim government after June 30th in preparation for elections next January, is the right one. All efforts must be made to prevent that course from being disrupted or blocked by violence, by sectarian divisions or by Iraqi mistrust of the whole process.

This week, things seemed to be improving as an Iraqi-led force began to police Fallujah, the rebellious Sunni town to which the Americans had laid siege, and as the main Shia rebel, Muqtada al-Sadr, was becoming more isolated by his fellow Shias. Mr Bush's television broadcasts condemning the abuses at Abu Ghraib and promising punishment probably helped cool the atmosphere, though he ought also to have offered a straightforward apology. Better still if he and Mr Rumsfeld were now to demonstrate one of the true American values: that senior people take responsibility.

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Ariel Sharon's lost referendum

Leave anyway

May 6th 2004
From The Economist print edition

The naysayers of Israel's Likud party must not be allowed to block Israel's exit from Gaza

AFP

INSPIRED by colleagues in Britain, 50 retired American diplomats wrote to George Bush this week alleging that the president's support of Israeli policies was costing America "its credibility, prestige and friends". The former diplomats are right. It was always obvious that America's support for Israel would create enemies in the Arab world and beyond. James Forrestal, its defence secretary, was one of many in the Truman administration who, in the 1940s, argued for this very reason against creating a Jewish state. Since September 11th, and the start of a world war for the hearts and minds of Muslims, America's lonely defence of Israel has arguably become even more expensive in friends. But does that make the policy wrong?

On its own, no. For much of the past half-century, especially the quarter-century during which the Arab countries were intent on destroying the Jewish state, supporting Israel has been the right thing for America to do. The question is whether, as the former diplomats allege, America has begun to support Israel right or wrong, in a way that undermines any prospect of ending the conflict by giving the Palestinians the state of their own which they too were promised in the 1940s.

The case for the prosecution rests on Mr Bush's recent endorsement of Ariel Sharon's plan to evacuate the Gaza strip. Withdrawing from occupied land is well and good, say the former diplomats, but not when Israel does so without even a show of consultation with the Palestinians, and when the Americans do not bother to consult the United Nations, the European Union or the Russians, their supposed partners in the Middle East's diplomatic "quartet".

Worse, Mr Bush stands accused of paying an exorbitant price for a concession Israel was anyway keen to make. In return for Gaza, he tore up the right of return claimed by Palestinian refugees and accepted that in a final peace Israel would keep some of its illegal settlements in the West Bank. To cap it all, he did not even get what he paid for. In a referendum on May 2nd, the Likud party rejected Mr Sharon's plan by a wide margin. So it seems that Israel might remain in Gaza after all, fortified now by an American promise of a strengthened negotiating position if peacemaking ever comes.

If matters stayed this way, Mr Bush would be guilty as charged of having alienated America's remaining friends in the Arab world for no good reason. So Mr Bush must not let matters stay this way. The job ahead falls into two halves.

First, Mr Bush needs to show that America has not tilted so far towards Israel that it can never broker a fair peace. He made a start this week by signing up to a statement from the quartet emphasising the need for a final agreement to be arrived at by negotiation with the Palestinians, not by dictation from the Israelis. He could do more by heeding a request from Jordan's King Abdullah to promise the Palestinians compensation for what they have eventually to give up in land or the rights of refugees. This would put American policy on peace roughly where Bill Clinton left it after the Camp David summit of 2000. What matters more, however, is the second and trickier half of the job. Some way must be found to help Mr Sharon quit Gaza in spite of having lost that referendum.

Why does this matter so much? An exit from Gaza would be a substantial step by any standard. A full, negotiated peace would plainly be better, but until that is within reach the best ought not to become an enemy of the good. For Gaza's Palestinians, the removal of the Jewish settlements could bring release

from decades of suffocation. No less significant would be the impact on those Israelis who have settled in the West Bank. Some may remain after a negotiated peace. But many rightly see leaving Gaza as the thin edge of a wedge that will one day divide Israel from Palestine. That is why the settlers campaigned so furiously against their former patron, splitting the ruling party and throwing Israel's politics into turmoil.

A question for all Israelis to answer

Not for the first time, progress now depends on the opaque machinations of Israel's minuscule democracy. But this could still work to peace's advantage. Although his own party has humiliated Mr Sharon, the total number of party members who voted against the plan was less than 50,000. All opinion polls suggest that the great majority of Israeli voters favour leaving Gaza—and in the right circumstances would favour leaving the bulk of the West Bank too. Mr Sharon has a reputation for bold strokes. A former Greater Israeli, he has been telling his superpower ally that he is willing to pay a high price for peace, and has come to accept the right of the Palestinians to their own state. Mr Bush should test this claim by urging him to take his Gaza plan over the heads of his right wing to the voters of Israel. This is a moment of truth not only for Mr Sharon, and his relations with America, but for Israel itself.

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Visas and science

Short-sighted

May 6th 2004
From The Economist print edition

A visa system tangled in red tape and misconceived security rules is hurting America

Get article background

THE number of scientists and engineers going to America to study and work is dropping precipitously. An important reason is the length of time it now takes to get a visa. This is both deterring would-be visitors from coming, and hindering some of those who try. Not only may this lead to a decline in America's scientific strength (see article), it is also an undeserved obstacle for many students.

Things are getting a little better—delays in visa processing, according to both America's State Department and academic observers, are shorter than a year ago. And only a small percentage of student-visa applications are held up for extremely long periods. Nonetheless, since the summer of 2003, applicants for student visas have been required to appear at an American consulate for an interview. Because consular staffs have not been expanded, this has led to delays of several weeks in order to sit for an interview that often lasts only a few minutes. Such a blanket requirement puts undue stress on both students and consulates, without yielding tangible security benefits. A more focused system makes more sense.

Safe and sorry?

The current mess could prove costly to America. Its economic and military prowess owes a great deal to émigré scientists and engineers. They were key members of the team which built its first atomic bomb in 1945, and they have played an important role ever since. In 2001, 35% of science and engineering doctorates awarded by American universities went to foreign students, and foreigners comprise a similar proportion of America's scientific and engineering workforce.

Furthermore, several requirements have exacerbated delays, with little benefit to security. For example, checks on scientists working in areas that might relate to national security (exactly which areas are secret) are currently valid only for a year. Since such checks take on average two months to complete, and cannot be applied for within America, it thus becomes difficult to complete a course of study lasting five or six years. Visas should be granted for the duration of a course of study—if someone is not deemed a security risk today, it is unlikely he will be so a year from now. Legitimate visa holders should be allowed to enter and leave the country, and to apply for a renewal of their visa while still in America.

There are also problems at home. The State Department and the Department of Homeland Security, which are jointly responsible for visas, are struggling to respond to the concerns of scientists but they are woefully ill-equipped—files are exchanged twice weekly with the Federal Bureau of Investigation (FBI) on computer disks, while the FBI takes up to three days to reply that a person has not appeared on its database. Furthermore, the State Department keeps inadequate data about visa delays and applications. This is inexcusable. All manner of businesses use software today to segment and understand their customers' behaviour. The government's failure to use the same technology is leading to both inefficiency and a decrease in security.

A more logical visa regime would make America safer, and those wishing to study or work there happier. Other countries are currently benefiting from the shortcomings in America's system. But change would, in the long term, serve even their interests. A return to honest global competition for scientists and

engineers would be healthier and more productive.

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Germany's economy

Reform begins at home

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The German government is laying the blame for the country's economic ills at the wrong door

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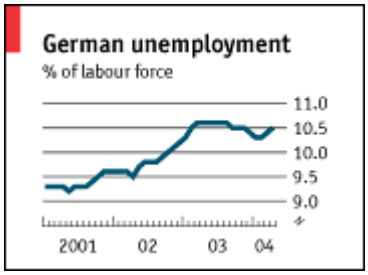

THE drowning man clutches at any passing straw—even if it cannot save him. So it is with Gerhard Schröder, the embattled German chancellor, as he contemplates a moribund economy, unemployment that is once again on the rise, and his party's deep unpopularity. Over the past two weeks, Mr Schröder has lashed out at two supposed culprits: budget austerity, which he seems to blame for accentuating the gloom that stops German consumers from spending; and low wages and corporate-tax rates in the eight central European countries that have just joined the European Union, which he says allow them to steal jobs and investment from Germany.

It is not, in fact, all that hard to diagnose what ails the German economy. In common with the rest of continental Europe, it has clearly been suffering from a lack of demand, caused in part by Germans' high propensity to save. This suggests that, at least for Germany, the European Central Bank's monetary policy may have erred on the tight side over the past few years. And the euro area's grotesquely misnamed “stability and growth pact”, under which budget deficits are supposedly limited to no more than 3% of GDP, has also made Europe's fiscal policy relatively tight—even though Germany, along with France, has bust the ceiling for three years in a row.

Yet to identify these macroeconomic factors as the main cause of Germany's malaise would be to miss the underlying problem. Other euro members, subject to similar macroeconomic constraints, have done far better. It is equally wrongheaded of Mr Schröder to blame low-cost, low-tax competition from countries to the east of Germany. His implied threat that the new EU members should be made to raise their labour costs and to harmonise their taxes would be a recipe not for a German rebound, but for them to import Eurosclerosis (just as eastern Germany did), without protecting any of them from strong competition from outside the EU.

What really mark Germany out from its more successful European neighbours are its structural rigidities, its high wages and non-wage labour costs, and an almost entirely seized-up labour market. These are also what most dismay German businesses, leading them to put off their investment plans or to move jobs and factories elsewhere (see article).

To be fair, Mr Schröder has, at least in the past, recognised this. Last year he put forward a moderately ambitious set of structural reforms that he presented under the label Agenda 2010. But to get these through a parliament whose upper house is controlled by the centre-right opposition, he had to accept compromises both on the reforms' timing and on their extent. And rather than pursuing the politically more challenging course of stepping up the pace of his reforms, he is now toying with the deceptively simple, Keynesian idea of expanding public spending (see article), while denouncing other countries' “unfair tax competition”.

Yet to keep up, or still worse to increase, public spending would be to do the opposite of what Germany really needs, which is a smaller state and lower taxes. Tax competition, far from being unfair, ought to push the country in the same sensible direction (and, as it happens, even though German corporate-tax rates look high, the country's corporate-tax revenues are relatively low). The hard truth for Mr Schröder is that, as one erstwhile political leader from another country once famously said, there is no alternative. Germany must keep reforming itself—or settle for inexorable decline.

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Google's IPO

A cartel-buster

May 6th 2004
From The Economist print edition

Google's plan for an auction-based IPO is a welcome challenge to the investment banks

EPA

ARE the boom years back? Google, an online-search company, has announced plans for the biggest initial public offering (IPO) of shares by any internet firm. The company expects to be valued at more than $25 billion. That will conjure up visions of the late 1990s, when shares in newly floated dotcom firms soared, at least for a while. But this flotation is meant to be different. Mindful of the disasters that followed so many earlier IPOs, Google wants to become a publicly listed company in a different way. If it succeeds, Google's experiment might not only make future IPOs less vulnerable to manipulation by powerful investment banks, but loosen those banks' grip over the entire process.

Google has included plain English in its prospectus, not just legalese. It has told investors that it plans to keep a dual-share structure to help it stay focused on the “long term”, even though this flies in the face of most visions of good corporate governance. Most intriguingly, Google plans to bypass the traditional way IPOs are sold. It will establish the share price in part through an auction (see article), rather than by relying solely on highly paid investment banks to set it.

That last bit is welcome news. The traditional way of floating a company is neither very efficient nor sufficiently transparent. Typically, a private company hires one of a select group of investment banks to organise the sale and market-listing of its shares. These banks, relying on their contacts with investing institutions, guarantee that the shares will be sold at the asking price. For most IPOs, the banks' fee is 7% of the money raised, falling to 4% for the biggest flotations. Acting like a cartel, these banks rarely compete on price.

That lack of competition was never a good sign. But as demand for dotcom and technology IPOs soared in the late 1990s, things got worse. Investment bankers realised they controlled a valuable currency. By pricing IPOs low, they gave away millions of dollars in the form of “pops”—a big rise in the first day's share price. That led to kickbacks in all but name. Institutional shareholders and corporate bosses were plied with IPO allocations in return for inflated commissions and future favours. The losers were investors who bought the shares unaware of such shenanigans, and the firms issuing the shares, which raised less money than they might have done.

Much has unravelled since the bubble burst. With exquisite timing, Frank Quattrone, one of the biggest promoters of tech IPOs in the 1990s, was convicted this week of illegally ordering the destruction of records of Credit Suisse First Boston's IPO allocations. A chastened CSFB is now acting as one of Google's advisers.

Despite still having to rely to some degree on investment banks such as CSFB, Google's auction-based IPO is an attempt to loosen their grip over flotations. At a minimum, its auction is meant to set a share price properly reflecting supply and demand, and it should lead to a fairer distribution of shares. Might it also break the investment bankers' cartel, and with it the danger of a return to past abuses?

Living without the “pop”

If it is perceived as a roaring success, it might. But there is no guarantee of this. Few other new

companies are as well known as Google, which is so famous that its name has become a verb. Others may not be able to count on reaching enough investors to make an auction flotation a success. Many firms may be more risk averse, preferring to pay the 7% fee to an investment bank for the promise that all their shares will be sold. And the banks, full of clever people, will do all they can to hold on to IPOs, one of their most lucrative businesses.

Yet, if Google's flotation shows that IPOs can be done in a more transparent and even-handed way, that could prove irresistibly attractive to issuing companies and investors alike, even without the lure of a first day “pop”. And if both sellers and buyers demand better treatment as a result, then investment banks will be forced to offer them a fairer deal.

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Letters

May 6th 2004
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Can't afford democracy

SIR – For the hundreds of millions of abject poor in Asia, the advent of democracy has no bearing at all ("That other miracle", April 24th). To the illiterate poor, democracy is nothing but a bourgeois concept that has benefited only the middle- and upper-income groups. The economically deprived bottom 20% of the population—whether in India, Indonesia or China—is, and will remain, deprived regardless of whether there is an autocratic or democratic government. If anything, autocracies can take unpleasant but pragmatic decisions that are nearly impossible for an elected government.

A. Farjad Ahmed
Dhaka, Bangladesh

Educating India

SIR – The rise of AIDS in India must shame all right-minded Indians—it is probably one of the saddest self-inflicted tragedies in the world ("Could AIDS explode in India?", April 17th). At bottom is the disgraceful state of education and literacy (or lack of it) in a country that has a great hunger for learning.

It is not hard to understand why. For most of the past 50 years, India has been run by politicians of unsurpassed venality, to whom an educated mass is a threat. An uneducated and downtrodden people are fodder to a corrupt and criminal leadership. To bring 75% of a billion Indians out of the shadow of poverty, hunger and illiteracy simply does not suit their wider interests and, from all available evidence, any attempt to do so will continue to be silently but ruthlessly quashed.

Stanley Pinto
Bangalore

Wal-Mart wins again

SIR – It is sad that the only champions of Wal-Mart on your letters page are German transplants living in Odessa, Florida, part of the great cultural desert that exists north of Tampa Bay (no oasis itself) and south of the Lynyrd Skynyrd radio-play line, which separates the South from those places south of it (Letters, May 1st). In fact, the popularity of Wal-Mart can be measured by the teens in Bushnell (nearest cinema: 35 miles). They park and hang-out in the car park of Winn-Dixie, Wal-Mart's struggling competitor—it is quiet there and they can avoid their parents who are shopping at the local supercentre.

John Miller
Bushnell, Florida

A big job

SIR – Just how big is Maria Ramos's task at Transnet, you ask (Face value, April 17th). A comparison between South Africa's five largest industrial groups helps to provide a sense of the extent of her job. The average asset value of the five companies—Sasol, Telkom, Barloworld, Imperial and Iscor—is 36 billion rand ($5.2 billion); Transnet's asset base is 70 billion rand. However, these companies generate turnovers averaging around 37 billion rand compared with Transnet's 41 billion rand but employ on average 26,000 people against Transnet's 76,000 workers.

This is a sad indictment of a country that is investment poor and asset starved. The outlook is equally bleak for a country sagging under the burden of high unemployment. The silver lining surely lies in the fact that three of the five companies —Iscor, Sasol, and Telkom—are successfully privatised state assets.

Adrian Saville
Johannesburg

Playing on

SIR – Your description of *ulama* tallies with the origin of many international sports ("Take me out to the ballgame", April 24th). However, you overlook another active sport with Native American origins: lacrosse. Jesuit missionaries in Huron country recorded early accounts of "La Crosse" in the 1630s, and the game is still played at universities and affluent preparatory schools throughout the United States and Canada.

Todd Kuethe
Carbondale, Illinois

SIR – There is a case to be made that the Irish game of hurling is the oldest sport still played in the western world. This ancient Celtic game was played in the Tailteann games of Tara in 1829BC. It is a frenetic, spectacular and dangerous game, which looks like suicidal aerial hockey. Hurling matches still regularly attract big crowds—78,000 people paid to see Kilkenny crowned all-Ireland champions last September.

Tom O'Brien
Dublin

Stopping the traffic

SIR – Most Nigerians are of the opinion that nothing good comes out of the western media about the country and you do not fail them ("Nigeria's other export", April 24th). The shameful business of human trafficking is localised in Benin City, the capital of Edo state. It is one of 36 states, and has a population of less than 6m out of the country's 120m.

To say that human trafficking provokes little moral outrage in Nigeria is wrong. In the past five years, many NGOs and other organisations have worked towards exposing those behind this shameful business and have turned the tide. The Women Trafficking and Child Labour Eradication Foundation founded by Titi Abubakar, the wife of Nigeria's vice-president, in collaboration with the Edo state government, has succeeded in repatriating more than 1,000 prostitutes from different locations in Europe. Furthermore, the police have repatriated more than 5,000 under-aged children from neighbouring countries within the past two years.

You fail to mention the root cause of this ugly business—grinding poverty and high unemployment, not Nigerian culture.

Kelechi Deca
Lagos, Nigeria

Thinly-sliced reform

SIR – California is saddled with a governor who gets a tenth of a loaf and calls it a massive victory ("Easy stuff, government", April 24th). The workers' compensation system in California is so overblown that insurance rates are 220% higher than the national average. Governor Arnold Schwarzenegger arranged a middle-of-the-night deal with the Democrat-controlled legislature for some very small reforms without allowing the Republicans or public to comment on the details. At best, they may bring down costs to only 200% of the national average after several months.

The governor's boast of taking the issue to the voters through a ballot was just a feint. Over 1m Californians signed petitions to put forward a reform plan that would have yielded at least half a loaf. Unfortunately, they were completely ignored—the governor refused to submit the petition for a vote in November.

Carl Olson
Woodland Hills, California

Car-phone technology

SIR – You say that cell phones are replacing cars (May 1st). This is good news. Before now, ladies have refused to be impressed by my shiny new Nokia.

Gary Lai
Vancouver

SIR – I look forward to the day when my phone delivers my groceries. Beam me up, Scotty.

Bob Macdonald
Vancouver

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Swing states

Welcome to Ohio—and the heart of the election battle

May 6th 2004 | CINCINNATI, CLEVELAND, COLUMBUS AND MASSILLON
From The Economist print edition

The first in a series on crucial "swing states" in the presidential election focuses on Ohio—which has voted for the winner in every election since 1964

THE 2004 presidential election is set to be another cliff-hanger. The past three years have brought tumultuous events—September 11th, an economic downturn, and wars in Afghanistan and Iraq to mention just four—and yet America is still stuck in election day 2000, a nation of red and blue partisans vying for dominance.

The 2004 election is likely to become the first $1 billion campaign in American history, with John Kerry and various leftish groups raising money at the same furious rate as George Bush. And yet in large swathes of the country the result is a foregone conclusion. Texas and most of the South will vote for Mr Bush come what may; New York and California will vote for Mr Kerry. The two parties will devote almost all their extraordinary reserves of treasure and energy to wooing voters in 18 swing states. We begin a series on these states with one of the tightest contests.

Dick Cheney calling

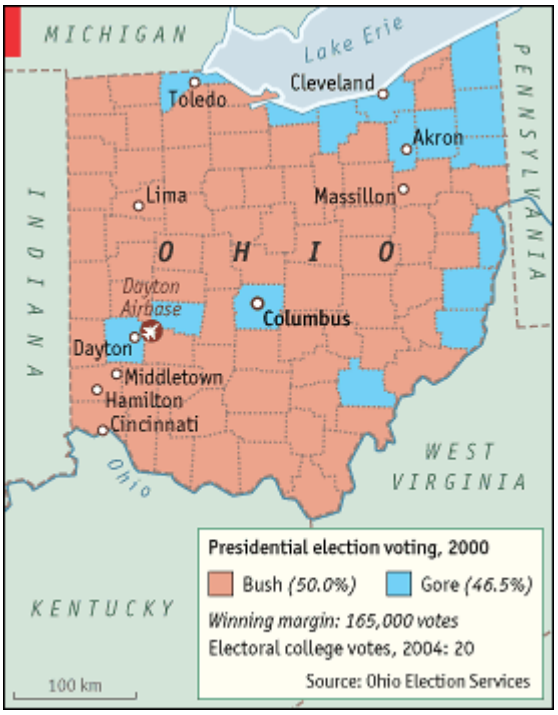
It is 186 days before the presidential election, a bucolic spring evening on the campus of Ohio State University, and some 50 students and a dog are gathered around a life-sized cardboard cut-out of George Bush. They are all wearing pro-Bush insignia. Several sport black T-shirts that read "Liberal advisory: Conservative content" (a play on "Parental advisory: explicit content"). A forlorn-looking stuffed donkey hangs from the branches of a tree.

At 8.30pm the students gather around a telephone to listen to a national phone-in with Dick Cheney. They applaud when Mr Cheney celebrates the fact that Saddam Hussein is in prison and when he praises Fox News for being so accurate. Even these Republican enthusiasts look a bit embarrassed when the vice-president takes a call from a sixth-grader called Cheney (christened with the moniker as a tribute to the then defence secretary) about what the administration is doing to preserve "cowboy traditions". But good humour is restored when the dog leaps up, unbidden, and savages the stuffed donkey.

The phone-in is a highlight of "conservative week" on the Ohio campus, a week that has included a bake

sale for the children of troops, a rally to support the pledge of allegiance and a fun-with-guns day. Heath Ackley, one of three Democrats spying on the proceedings, admits the Republicans are better organised on the campus than is his side. (The Republicans have 300 members and have already signed up 600 students to do volunteer work for the Bush campaign.) But he points to one bright spot: a leftish group called America Coming Together (ACT), partly backed by George Soros, a Bush-loathing billionaire, is systematically trawling the campus for potential Democratic voters—and offering people $8 an hour to help them out.

Ohio is the very definition of a swing state. Its economy has been dominated by heavy industries that have been battered by global competition. But the culture is thoroughly conservative: the state legislature recently voted to ban gay marriage and to allow people to carry concealed weapons. The Democrats are strong in the cities and in the industrial north. The Republicans dominate the suburbs and ex-urbs and most of the south. Bill Clinton carried Ohio only by narrow margins—just 40-38% in 1992.



Ohio is crucial to the Bush re-election campaign: no Republican has ever won the White House without winning the Buckeye State. Yet Mr Bush won Ohio with a mere 3.5-point margin in 2000, and local opinion polls show him in a dead-heat with Mr Kerry. Mike Allen, chairman of the Bush campaign in south-west Ohio, thinks that Al Gore would have won the state if he had not abandoned it ten days before the election. He worries that Mr Bush is only eight points ahead in the Republican south of the state; he needs to be 16 points ahead to balance the Democratic counties up north.

Mr Bush's reputation in the state has been badly battered by job losses. Ohio lost 179,600 factory jobs between July 2000 and October 2003, according to the National Association of Manufacturers, one out of every six such jobs in the state. A Californian demographer, Joel Kotkin, constructed a list of the 20 worst-hit places in 2000-03 for *Inc* magazine. Three are in Ohio: Lima, where the number of jobs has fallen by 22.9%, Hamilton-Middletown, where the figure is 18.7%, and Toledo, the starting-point of the Ohio leg of Mr Bush's “Yes, America Can” tour this week, where the figure is 15.6%. Many people in the rustbelt are angry with Mr Bush for rolling back steel tariffs.

Massillon is a classic blue-collar town in the heart of Stark County (a swing county): a place where football is a religion (the school stadium seats 20,000) and the town centre is crammed with fraternal lodges. But the old economy is dying. Johnnie Maier, a former Democratic state legislator who is now clerk of the Massillon municipal court, points to two factories that have closed since Mr Bush came to office: a surgical-glove plant (the last in the country) and a hulking steel factory. As for the new economy, he points dismissively to a collection of fast-food restaurants and discount stores that pay minimum wages and offer few benefits. In the 1990s burger joints offered $150 sign-up bonuses; now they are turning people away. Filings for eviction and bankruptcy are up sharply.

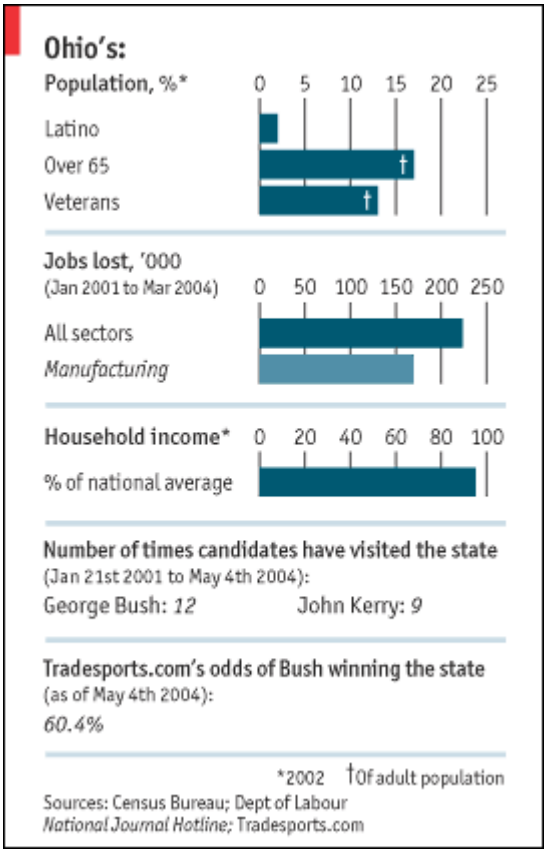
Mr Bush also has two rather less obvious vulnerabilities. The first is a civil war within the local Republican Party. Ohio conservatives are furious both with Mr Bush for letting the deficit balloon and with Bob Taft,

the state's Republican governor, for supporting a $3 billion tax increase, the biggest in the state's history. Ken Blackwell, Ohio's Republican secretary of state, is now supporting a possible ballot initiative to repeal the sales tax.

Iraq, of course

The other problem is Iraq. The patriotic folk of Ohio festoon the bridges over the freeways with American flags, and their patriotism has boosted Mr Bush's poll numbers. But many also have a personal stake in the war. Dayton is home to one of the biggest airforce bases in the country. Ohio also had one of the highest numbers of military reservists deployed abroad in the first quarter of this year.

So Mr Bush is vulnerable—but he is building a formidable political machine to defend his patch. Both the state's senators are Republicans, as are 12 of its 18 members of Congress. The party controls all Ohio's state-wide elected offices, from the governor downwards, as well as majorities in both houses in the state's legislature and on the state Supreme Court.



This gives Mr Bush a formidable array of brand-name surrogates to translate his message into the Ohio vernacular, but he is also determined not to rest on his laurels. Back in 2000, Mr Bush's people saw a ten-point lead in the local opinion polls on the weekend before the election disappear to almost nothing, because the Democrats won the ground war in getting their voters to the polls. The local Republicans are now fighting back.

Jo Ann Davidson, a former speaker of the Ohio House who is now running the Bush campaign in four Ohio River Valley states, wants to have a captain in each of the state's 12,000 precincts. These captains will run an army of 51,000 volunteers (one for every 50 citizens). So far, the campaign has succeeded in recruiting 3,500 precinct captains, 24,000 volunteers and 30,000 new voters.

The Bush campaign has the feeling of a well-oiled corporate machine—more like Cincinnati's Procter & Gamble (P&G) than those failing steel companies. The attention to detail is meticulous. Bush volunteers are charged with recruiting yet more volunteers, just as Amway uses its salesforce to recruit more salespeople, and they are also given training videos to sell their product better. The campaign is forming alliances with various interest groups, notably farmers and evangelical Christians. Mr Bush has a campaign office in Columbus with 13 full-time staff—as well as a squad of Ohio-watchers in his national headquarters in Arlington, Virginia. Whatever his other failings, the president could well go down, alongside Ronald Reagan, as one of the greatest party-builders in the Republicans' history.

Mr Kerry's campaign, by contrast, is a shambles: he has not even set up an office in Ohio. But he does have two things going for him. The first are all the old Democrat organisations that help with the ground war, notably the trade unions; the second are the Bush-haters, like Mr Soros.

ACT is one of many advocacy organisations set up to defeat Mr Bush. It has 20 offices in Ohio with a staff of 450. ACT volunteers are hard at work across the state, entering details on potential supporters in Palm Pilots and Blackberries, and the group already claims to have registered 45,000 new voters in Ohio. MoveOn.org and Media Fund are blanketing the state with hard-hitting ads.

The lesson from Samuel Bush

Even if Mr Kerry can turn this rag-tag collection of activists into a disciplined force, he still faces three big problems in trying to lure in independent voters. The first is his personality. Many Ohio Democrats speak surprisingly harshly about their candidate—as a north-eastern liberal who is out of touch with Ohio's

conservative values, and a cold fish to boot. The last three Democrats who have taken Ohio have all been southerners.

The second is his economic message. Mr Kerry probably has no choice but to rail against “outsourcing” and “Benedict Arnold companies” to keep the left happy. But there is much more to the Ohio economy than Massillon. P&G is one of the world's most successful global companies. Another big local employer is Honda, something of which Mr Kerry was firmly reminded when he said he would like to see hybrid cars “made in America” rather than made by Honda.

The third problem is that Ohio is a horrifically expensive state to campaign in, with three big metropolitan areas and six different big media markets. Some locals suspect that Mr Kerry will follow Mr Gore's example and limp away in the final weeks. Why spend so much in Ohio, where the Republicans are so deeply entrenched, when you could have easier pickings in Arizona, New Hampshire, Delaware and Missouri?

A century ago, Mr Bush's great-grandfather, Samuel Bush, helped lay the foundations of the family fortune as the boss of Buckeye Steel in Columbus by applying the “scientific” management methods that he had picked up from a college classmate, Frederick Taylor, the father of stopwatch management. Symptomatically, Buckeye went bankrupt in 2002. Yet, for all that, Samuel's great-grandson goes into the 2004 election in Ohio as the favourite, because he is bringing to this election the same fervent belief in careful planning and disciplined management.

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Birds and buildings

Traffic accidents

May 6th 2004 | CHICAGO
From The Economist print edition

How to stop one flying into the other

CAN modern man pursue his urban ambitions and still coexist with nature? The question seems particularly relevant if you are a bird and you are heading for Chicago, where the annual spring migration is just reaching its peak. Perched on the edge of Lake Michigan, this huge city is directly in the path of some 300 species of avian travellers, many of whom prefer to hug the shoreline rather than cross the huge lake.

That is not always a safe choice, given Chicago's lofty skyline. In the late 1960s, flocks of warblers, thrushes, cuckoos and other species flew headlong into the newly built, 96-storey John Hancock Centre. The birds, which navigate at night using celestial cues, were attracted by the building's lights. Their dead bodies littered the sidewalks below as the sun rose.

Mirrored glass is a growing hazard, even in daylight. Michael Mesure of the Fatal Light Awareness Programme (FLAP), a Toronto-based environmental group, recalls seeing at least 500 birds hit two mirrored office towers in his city one morning a few years ago. “It was literally hailing birds,” he recalls. His group now tries to aid the injured, and rather bizarrely stores masses of dead birds in a freezer until it can photograph them en masse.

On the worst count, some one billion birds a year hit glass in America. Those that die on the spring migration are the fittest of the flock, having already survived thousands of miles in the air. Chicago and Toronto are trying to help. Both cities pursue organised “lights out” programmes during peak migration periods, when tall office buildings are asked to turn out the lights on their upper floors overnight—and death rates have fallen sharply. New York has a similar but smaller programme.

Chicago is trying particularly hard to lure in feathered visitors. The mayor, Richard Daley, has added lakefront parks, bird sanctuaries and nesting grounds, and the result has been dramatic. As many as 7m birds use the city's lakefront parks annually, says Doug Stotz, an ornithologist at the Field Museum, many of them rare.

Last year, a Grace's warbler was spotted in a local park—the first sighting east of the Mississippi. Bald eagles have returned to the city in recent weeks—the first such sighting in the city since the 1800s. Peregrine falcons are being bred in nests on the top of city skyscrapers. Snowy owls have turned up at a peninsula along the lakefront best known as the former site of Meigs Field, a small airport Mr Daley bulldozed in the middle of the night last year. The mayor, still unrepentant, plans a 100-acre park and nature centre there.

Despite all the progress, plenty of hazards remain. Chicago's lakefront parks are interspersed with massive man-made structures that are deadly for many birds. Mr Mesure says McCormick Place, Chicago's giant convention centre, “has a horrible history of bird strikes by both day and night”. The newly renovated Soldier Field, a gigantic football stadium along the lake, is another hazard directly in the flight path. And in Grant Park, a massive, twisting piece of shiny metal (designed by Frank Gehry) reaches for the sky above the new outdoor stage in the soon-to-be-dedicated Millennium Park. Those birds had better keep their eyes open.

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The electoral week

On the trail

May 6th 2004
From The Economist print edition

Billion-dollar men

“When you look at the amount of money spent to get people to vote and participate in the political system, it pales in comparison to what is spent to get people to buy toothpaste.”

Ed Gillespie, chairman of the Republican National Committee, on campaign spending, now estimated to reach $1 billion this year, Los Angeles Times, May 4th

Gentlemen scholars

“I dropped out after a few semesters. Well, actually dropped out isn't quite accurate. Asked to leave would be more like it. Twice. The second time around they said, don't come back.”

Dick Cheney tells Florida State University students about his time at Yale, May 1st

In your home for four years?
Public opinion of presidential candidates' personal attributes, %*

	Bush	Kerry
Is a caring and compassionate person	45	37
Is a friendly and likeable person	44	36
Shares my values and beliefs	45	38
Is a “people person”	45	41
Sometimes seems cold and distant	39	36
Has a boring personality	37	41

Source: ABC News/*Washington Post* *April 21st-25th

Funny Man

“It really gets me when the critics say I haven't done enough for the economy. I mean look what I've done for the book publishing industry. You've heard some of the titles. “Big Lies”, “The Lies of George W. Bush”, “The Lies and the Lying Liars Who Tell Them”. I'd like to tell you that I've read each of these books, but that'd be a lie.”

George Bush amuses the hacks at the White House Correspondents Association Dinner, May 1st

Getting off the vote

“It makes people think we're not just about nudity, but that we're taking part in society.”

Melissa Smithey, a stripper in Wisconsin, on the get-out-the-vote drive in her place of work. Exotic dance clubs in about 18 states are helping to register voters. Associated Press, May 1st

Watch out, world

“Yes, America can.”

The slogan of this week's Bush bus tour through mid-western swing states.

Deny, deny, deny

“There's a new one I am thinking of: ‘I would not accept at gunpoint'.”

Bill Richardson, Democratic governor of New Mexico, continues to fuel speculation about his vice-presidential aspirations. Associated Press, April 29th

The Middle East explained

“To be able to come out upside down and look down and catch the horizon in back of me and see all the way down into the Sinai to the old base that had been given up, all the way across into Jordan, all the way out into the Gulf of Aqaba, and to see Israel beneath me, and the lines contained, and to see it all upside down was the perfect way to see the Middle East and Israel.”

John Kerry once flew wrong-way up over Israel. Associated Press, May 3rd

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Dealing with North Korea

Passing the ammunition

May 6th 2004 | WASHINGTON, DC
From The Economist print edition

No easy deals to be done—even for the Democrats

AP

If only John Kerry could look this natural

UNKEEN, despite repeated Republican taunts, to reveal the names of the mystery foreign leaders that he has claimed are rooting for him in the election, John Kerry can hardly be pleased with the one endorsement he does appear to have won—from North Korea's boss, Kim Jong Il. Senior Bush people claim Mr Kim would break out the champagne at a Kerry victory, seeing him as a soft touch. Is he?

Democrats claim the growing North Korean nuclear threat proves that George Bush's high-handed manner with friend and foe alike has made America less safe. The official tally remains at “possibly one or two” weapons; it is reported that this will soon be revised sharply upwards by intelligence officials to about eight.

Mr Kerry has long said he would deal with the nuclear issue in direct talks, as North Korea has been demanding, rather than through more cumbersome, and so far unsuccessful, six-way talks that also include South Korea, Japan, China and Russia. A sign of weakness? Sandy Berger, a former national security adviser to Bill Clinton, insists his party is actually tougher on the issue than the Republicans. The Clinton administration's 1994 agreement with North Korea (which froze its production of bomb-useable plutonium in return for energy assistance) held for eight years, when North Korea might otherwise have produced up to 100 bombs.

In 2002, when a second nuclear programme, this time to enrich uranium, was discovered, North Korea tossed out international inspectors and busied itself making more plutonium. Mr Berger suggests that the Bush team has spent more energy on the shape of the talks to deal with the crisis than on stopping Mr Kim building more bombs. Such foot-dragging, add others, has simply given China, organiser of the six-way talks, a diplomatic boost.

Mr Bush's officials, for their part, have encouraged China and other neighbours to play a bigger role. They argue that, by standing aside in 1994, China, South Korea and others left America with too little leverage over Mr Kim; the result was a weak deal that had no real provision for verification or enforcement. They also point out, correctly, that North Korea's uranium dabbling had already started on Mr Clinton's watch. And if reports attributed to Abdul Qadeer Khan, the secrets-selling Pakistani nuclear scientist, are to be believed, the three “nuclear devices” he claims North Korean officials showed him five

years ago were assembled in the Clinton years too.

All the same, argues Robert Einhorn of the Centre for Strategic and International Studies, who gained plenty of experience in the negotiating trenches with North Korea in the Clinton State Department, the Bush administration's insistence that it will not reward North Korea for dismantling its nuclear programmes “completely, verifiably and irreversibly” needs tweaking a bit. An offer that allowed North Korea to see some benefits before the disarmament process was complete might better test Mr Kim's true intentions.

But there are few illusions, even among Democrats, that there is an easy deal to be had. Given North Korea's mendacious past, any deal would need tough verification rules to convince Congress that it was worth the paper it was written on. And if there was no deal? Sounding remarkably Bush-like, Mr Berger says that more coercive solutions should not be ruled out.

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Muslims in America

Crescent concerns

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From The Economist print edition

A few cracks in tolerance for Muslims in America

AMID all the accusations about America's human-rights record in Iraq and Guantánamo Bay, defenders of the administration have often pointed to the general lack of discrimination against Muslims at home. After September 11th, George Bush went out of his way to defend American Muslims. Yet complaints about harassment and discrimination in America are growing.

The latest evidence comes from the Council on American-Islamic Relations (CAIR). Last year, that civil-rights group received 1,019 “credible” reports of anti-Muslim discrimination—compared with just 602 in 2002. The incidents, detailed in a report released this week, range from religious slurs and refusals by schools and employers to allow women to wear the *hejab* headscarf, to people vandalising mosques and physical attacks on Muslims. A third of the complaints cited government agencies, such as the police, as the offending party, and almost a quarter of the reports came from California.

The increase is partly due to CAIR's expanded monitoring of such complaints. But Mohamed Nimer, the organisation's research director, thinks the rise is largely attributable to other factors, including the war in Iraq and anti-Muslim rhetoric, particularly from the religious right and on talk radio. The report also criticises the USA Patriot Act, the Bush administration's main anti-terrorism law, which many Muslims claim is discriminatory.

The anger among American Muslims needs to be set against many things—not least the far worse human-rights records in the countries that many American Muslims fled. Anecdotally at least, there does seems to be a brighter side to America's sudden anxiety about Islam. As Ashraf El Ezz, an Egyptian-American living in Lexington, Kentucky, points out, more non-Muslims are trying to learn about the religion through school visits to mosques and so on; and more American Muslims are learning how to organise themselves politically. Their votes will be much sought after this November.

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Lexington

A house divided

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From The Economist print edition

The divisions and indecision in Iraq have their counterparts in Washington, DC

AT A press conference in the Rose Garden last week with Paul Martin, Canada's new prime minister, George Bush tossed into his list of the coalition's achievements in Iraq the assertion that “there are no longer torture chambers or rape rooms” there. Not compared with those under Saddam, perhaps. But at that very moment the rest of the world was poring, horrified, over photographs of Iraqi prisoners abused in the Abu Ghraib jail—pictures which Mr Bush himself rightly condemned on Arab television as “abhorrent”. But that came later. His first reaction was the sort of “Doesn't-he-know-what-is-going-on?” moment that occurs when an administration is losing its grip on events.

The turmoil in Iraq has its counterpart in turmoil in Washington. Richard Viguerie, a pioneer of Republican grass-roots organising, recently told the *New York Times* that “I can't think of any other issue that has divided conservatives as much as this in my political lifetime.” Mainstream conservatives who thought the government had no business invading Iraq in the name of idealism feel emboldened. The *National Review*, their standard-bearer, turned on the administration demanding “an end to illusions” spun by neo-conservatives. George Will signed off a recent offering in the *Washington Post* by saying, “This administration needs a dose of conservatism without the prefix [neo]”. For their part, the neo-cons are suffering a loss of nerve. One of their leading voices in the administration is now arguing that the troops should come home more quickly.

Tensions within the administration over Iraq, particularly the ancestral squabble between the State Department and the Pentagon, are of long standing: witness all the arguments detailed in Bob Woodward's recent book, “Plan of Attack”. So long as debates take place behind the scenes and do not affect overall policy once decided, they are fine. But they have resurfaced now because of policy reversals over Iraq, as well as forced reversals on the battlefield—and they do seem to be doing damage.

Begin with the changes of policy. In the past few months, the administration has, among other things, abandoned its idea of transferring power to Iraqis at its own pace to people of its choosing in favour of transferring sovereignty on June 30th to an interim government chosen by the United Nations; speeded up the rebuilding of the Iraqi army, which it had abolished; softened “deBaathification”; and even let former Iraqi soldiers help control rebellious Fallujah.

Mr Bush calls this “implementing a clear strategy in Iraq”. For the most part, the changes are sensible: abolishing the army created large numbers of unemployed, angry and armed young men, for instance.

But huge U-turns can rarely be executed faultlessly even in the best circumstances—which Iraq's are not, and neither are Washington's. As a result, the administration has often sent mixed messages. Mr Bush has made a great show, for instance, of handing over sovereignty to the Iraqis at the end of next month. Yet Marc Grossman, who is number three in the State Department, told the Senate recently that the new interim government would have limited sovereignty, that it would not be able to make laws and that America would exercise final authority over the Iraqi police, security services and army.

In some ways, divisions in the administration reflect Iraq's own fissures. Different departments have supported different factions there and taken different views on the role of, say, Iraqi exiles. But they also point to old rivalries in Washington. The feud between the State and Defence Departments meant there was no proper planning before the occupation (the Pentagon chucked away State's plans), inadequate supervision by the Pentagon of reconstruction, and an over-reliance on private contractors. Conflicts between the bureaucrats could well worsen after June 30th, when State takes over the lead role with no real way of controlling the 135,000 American troops that will remain.

Living in denial

For the moment, the man at the centre of these problems is Donald Rumsfeld, the defence secretary. It was he who insisted on a smaller occupation force than his generals had wanted and he who wanted the Pentagon put in charge of reconstruction. Now he stands accused of disrespecting Congress as a partner in the war in Iraq by failing to take the opportunity of a closed session with its members last week to forewarn them of accusations of torture and abuse (this is not mere *amour propre*: Congress formally declares war in America). Mr Bush has privately chided his defence secretary, who as *The Economist* went to press was due to appear before the Senate Armed Services Committee.

It does not help that Mr Rumsfeld has argued that prisoners in Guantánamo Bay are not subject to the Geneva conventions. That is a tenable idea (the al-Qaeda people picked up in Afghanistan are not ordinary prisoners-of-war), but untested in court. And it may have given the impression that American guards were somehow not constrained by ordinary laws or international norms governing the treatment of prisoners.

Inevitably, Mr Rumsfeld's foes are claiming that the State Department warned the Pentagon about the abused detainees. Yet the problem in the administration goes beyond one department. Too many senior people seem to be stuck in a time-warp dating back to those glorious days after the war when the mission seemed to have been accomplished, when neo-cons were asking who was next to receive the gift of American democracy and the only torture to worry about was Saddam's. Optimistic reports about rising living standards are lapped up; so are overconfident assessments about the popularity of the occupation.

The administration may still be able to pull something tangible out of the current muddle. Even a wobbly, partially democratic Iraq would be an improvement on Saddam. But it needs to sort out its own confusions first.

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Brazil

An underpowered economy

May 6th 2004 | SÃO PAULO
From The Economist print edition

Lula's government is trying to remove obstacles to investment—but not fast enough

Get article background

HERE is an irony: the government of Luiz Inácio Lula da Silva, whose left-wing party abhors financial speculators and reveres industry, has done a much better job of pleasing short-term investors than long-term ones. Soon after taking office in January 2003, Lula's economic team administered a “credibility shock”: to reduce public debt they tightened the budget beyond what the IMF had asked for. Speculators feasted on Brazilian bonds. But builders of factories, roads and power plants have been wary. Does the government “really want us around?” wonders Eric Westberg of APINE, a lobby group of independent power producers.

Yes, says the government emphatically. To sustain economic growth of 3 ½% a year, still too little to reduce unemployment dramatically, Brazil needs to invest 22% of GDP, says Alexandre Bassoli, an economist at HSBC, a British bank. Last year's investment rate was 18.5%. A voracious government crowds out private investment but, after paying interest and social security, barely has any money to invest itself. Foreign direct investment, vital to an economy that saves too little, has plunged (see chart). Lula's promises—the creation of 10m jobs the boldest among them—depend on doing better.

In the short run, the economy can grow without an investment spurt because factories and power plants are under-employed after several sluggish years. Brazil's transport network, though, is already buckling. Lorries bearing soya for export formed queues 60km (37 miles) long outside one port. Brazil has 1.5m km of road, but just 11% of that is paved. To keep the economy growing at 3-4%, Brazil needs to invest 15 billion *reais* ($5.1 billion) a year in transport, reckons Paulo Fleury of Rio de Janeiro's Federal University.

Energy presents a similar picture, in slower motion. Today's glut of electricity could be gone by 2008. To avoid a shortage, the government will have to tender for new power plants this year. Energy needs 20 billion *reais* of investment per year, according to Tendências, a consultancy. Much of that will have to come from private sources. At Lula's urging, the IMF is to consider exempting some public investment when calculating the fiscal deficit. But initially that is unlikely to involve more than a few pilot projects. Of the $20 billion invested in infrastructure in 2001, two-thirds came from the private sector, points out José Augusto Marques of ABDIB, a heavy-industry group. Half of that came from foreigners.

But investing in infrastructure has been full of hazards. The government of Paraná, one of Brazil's most developed states, has made itself notorious among investors by trying to wrest a motorway concession from a private company because it wants lower tolls. A more common experience is that of the paper division of Votorantim, a conglomerate. It set up a system to bring wood from Mato Grosso do Sul to São Paulo by river, only to have a court bar the use of a port—although this had been approved by the local council.

A glance at the agenda of Congress suggests that the government is serious about winning over private investors. The president "is aware that we need to go faster," says Luiz Fernando Furlan, the industry minister. The Senate is considering a law that would create public-private partnerships along the lines of Britain's private-finance initiative. This would enlist private companies to build and operate such public works as roads and irrigation, in theory for less money than if the state undertook the work directly. Congress recently passed a law designed to encourage investment in electricity before bottlenecks appear. Last month the government unveiled a long-awaited bill for regulating energy, telecoms and transport.

This has not inspired euphoria. The government's initial hostility towards the regulatory agencies set up by its predecessor has evolved into grudging acceptance of their independence. The bill proposes that a government would not be able to remove a regulator from office until a year after its election, for example.

Yet the government proposes to impose "management contracts" on them, with unspecified penalties for non-compliance. The new energy law is a sketch to be filled in by the energy ministry. The outline is promising, but investors are sceptical. Investors in new power plants "are very unlikely to come to Brazil," says Arthur Ramos of AT Kearney, a consultancy.

In the long run, Brazil's investment performance depends on deeper changes. With a tax burden of 36% of GDP, double that of such peers as Mexico and Argentina, Brazil is unlikely to save enough to boost its investment rate significantly. The state can raise its own scope for investment only by spending less on salaries and badly targeted social programmes, a task Mr da Silva has only just begun. In the meantime, the government must convince sceptical investors that Brazil is safe and profitable. The country needs a second credibility shock.

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Panama's new president

Not his father's son?

May 6th 2004 | PANAMA CITY
From The Economist print edition

Promising a break with the past

HE IS the son of one famous military dictator and his party is also that of another, the notorious Manuel Noriega. But Martín Torrijos has persuaded Panamanians that he is the right man to invigorate their democracy. On May 2nd he won a clear victory in a presidential election, gaining some 47% of the votes to 31% for Guillermo Endara, a former president installed in power by the American invasion of 1989, which toppled General Noriega.

Mr Torrijos ran a clever campaign. He capitalised on his name. His father, General Omar Torrijos, was a generally benevolent ruler from 1968 until his death in a plane crash in 1981. He won Panama control over its canal by negotiating a treaty with Jimmy Carter that saw the Americans pull out in 1999. Many Panamanians revere him as the father of the modern nation.

But Mr Torrijos, who was educated in the United States, also appealed to younger Panamanians. He made it clear that he stands for a different agenda, of strengthening democracy. He supports talks for free trade with the United States, which began last week. He benefited, too, from the backing of Rubén Blades, a popular salsa musician who once stood for the presidency himself and may now get a cabinet job. Voters also seemed to appreciate the fact that Mr Torrijos was an illegitimate child, acknowledged by his father only when he was a teenager.

The new president will be helped by a reviving economy, although the bankrupt social-security system needs reform. His main promise was to fight the corruption that marred the government of the outgoing president, Mireya Moscoso. Last year, the American ambassador publicly rebuked it for letting corruption flourish. One of Mr Torrijos's aides talks of setting up an independent auditor-general to oversee the public accounts and an ombudsman for human rights. Panamanians hope their new president will do for public morality what his father did for national pride.

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Cuba's foreign relations

Old friends and other enemies

May 6th 2004 | HAVANA AND MEXICO CITY
From The Economist print edition

A row with Mexico, as well as the Yanquis

AP

Is that a herd of hypocrites out there?

ON MAY 1st, it is traditional for Fidel Castro to give Cubans an update on what he sees as the iniquities of the United States. But this year, speaking for two hours in broiling heat before a million marchers, the 77-year-old Cuban leader was in unusually vituperative form—if at times haltingly so. The European Union? A "mafia" allied with the "fascist" *Yanquis*. Some Latin American governments were no better. For Mr Castro attack has always been the best form of defence—and it is useful to him to seem besieged.

In the case of the Americans and the EU, this was nothing new. The Europeans have been at odds with Cuba since last year, when Mr Castro rounded up 75 campaigners for democracy and jailed them for long terms. But Mexico and Peru are less used to receiving this sort of abuse. They responded by recalling their ambassadors from Havana and ordering their Cuban counterparts to leave.

Mr Castro accused the two countries of joining the "herd of hypocrites" who voted to condemn Cuba at last month's meeting of the United Nations Human Rights Commission. He was particularly harsh on Mexico, a faithful friend in the Americas for most of Mr Castro's 45-year rule. Mexico was, he declared, now a mere pawn of the United States, its "prestige and influence gained in Latin America and the world...turned to ashes".

Mexico's relations with Cuba have been rocky since Vicente Fox's election victory in 2000 completed a transition to democracy. The preceding governments of the Institutional Revolutionary Party had a cosy arrangement with Mr Castro under which they withheld criticism of him so long as he refrained from backing guerrillas in Mexico. But Mr Fox has turned support for human rights into a cornerstone of Mexican foreign policy. In 2002, the rift became public when the Cuban dictator stormed out of a summit hosted by Mr Fox in Monterrey. He then released an audiotape of a phone call in which his host beseeched him to leave early so as not to embarrass George Bush.

Mr Fox now has another reason to be irritated with Mr Castro, after Cuba involved itself in a local political scandal. Carlos Ahumada, a businessman who filmed himself paying bribes to associates of Andrés Manuel López Obrador, the popular left-wing mayor of Mexico City, fled to the island in February. Before deporting him back to Mexico last week, Cuban officials said that Mr Ahumada had confessed to them that he was part of a conspiracy by Mr Fox's people to bring the mayor down. Mexico's government denies this, and accused two Cuban Communist Party officials of spying during a recent visit to Mexico. A few thousand sympathisers demonstrated at the Cuban Embassy this week, and Mr Fox's foreign minister seemed keen to downplay the rift.

As for Mr Castro, he is braced for another offensive in the long, futile, effort by the United States to unseat him. On May 6th, after *The Economist* went to press, the State Department was due to release a 500-page report, the outcome of a six-month policy review, on ways to step up American pressure against the Cuban regime. Its proposals were said to include restricting visits by Cuban Americans and cutting their remittances home by half; curbs on spending by Americans who travel legally to Cuba; and boosting support for Mr Castro's opponents and for propaganda broadcasts aimed at the island.

Such moves would not shake Mr Castro's control, though they might make life more miserable for

Cubans. They may stem from Mr Bush's need to secure Florida in this year's election. Cuban officials point out that several of their Cuban-American foes have top jobs in the Bush administration (although one, Otto Reich bowed out this week as the special envoy to Latin America). Improbably, they accuse the Americans of preparing an invasion to secure regime change in Havana. Advancing age, rather than his many enemies, will surely be Mr Castro's nemesis.

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Peru

Small-town democracy, without law

May 6th 2004 | LIMA
From The Economist print edition

Drawing the wrong lessons from a lynch mob

Get article background

DEMOCRACY, it is often said, is under strain in Latin America—especially so in the Andean countries. But at local level it is has never been more vigorous: in 1980, only three countries in the region chose mayors by direct election. Today, nearly all do. And nowadays mayors have money.

So citizens expect more of them—and are less tolerant of their misdeeds. In Ilave, a small Peruvian town near Lake Titicaca, local indignation with the mayor, Cirilo Robles, last week ended in tragedy. For weeks, locals had been blockading the highway through the town, demanding that Mr Robles quit over alleged embezzlement. He had fled. To forestall an attempt to vote him out of office, he returned, calling an emergency council meeting at his home. That was a fatal mistake. A mob of several hundred surrounded his house. He was dragged out, beaten, and left to die.

Around Ilave, most people are Aymara-speaking Andean Indians, as they are across the lake in Bolivia. Excitable commentators in Lima saw an ethnic grievance and the hand of Bolivia's radical agitators. Not so. Mr Robles was an Aymara too. His deputy and rival has been arrested for his murder.

Politicians have been quick to blame Alejandro Toledo, Peru's hapless president, for the affair. On May 6th, Congress censured his competent interior minister, Fernando Rospigliosi, obliging him to resign.

But the causes lie elsewhere. Smuggled goods worth perhaps $200m a year pass through Ilave; local officials squabble over rake-offs. Curiously, electoral law does not allow mayors to resign. They can be recalled: recall votes are to be held in 166 of Peru's 2,828 districts this year. But legal sanction is a better remedy for small-town corruption than direct democracy. Peruvians should be asking themselves why the people of Ilave took the law into their own hands.

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Bolivia

Hot air

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From The Economist print edition

Another president, another protest

AFP

Get article background

It's gas-powered and points backwards

SIX months ago Bolivia's president, Gonzalo Sánchez de Lozada, was forced to resign when days of stone-throwing protests ended with the killing of at least 59 of the mainly Andean Indian demonstrators by troops. His replacement, Carlos Mesa, the former vice-president, has had some success in calming a poor and angry country. Mr Mesa, a historian and journalist, remains popular, with poll ratings of over 70%. But like Mr Sánchez de Lozada, he has had to start taking some unpopular decisions—and now he is coming under siege by some of the same radical groups that toppled his predecessor.

Faced with a fiscal deficit that reached 8% of GDP last year, Mr Mesa ordered some spending cuts and new taxes. That drew the ire of public-sector unions. Last month, thousands of teachers, transport workers, miners and public-sector employees staged a protest. This week, they began what they said was a general strike aimed at forcing Mr Mesa's resignation. It started weakly. Jaime Solares, an unreconstructed leftist who heads the Bolivian Workers' Confederation, promises that it will gather strength in the days ahead.

One of the factors that inflamed the protests against Mr Sánchez de Lozada was a plan to export natural gas via Chile, whose seizure of Bolivia's coastline in the 1879-83 War of the Pacific still rankles. Now Mr Mesa, too, has gas troubles. Last month, he agreed to a request from Argentina, which faces energy shortages, for emergency supplies. He felt obliged to insist that Argentina should not use these to restore its gas exports to Chile, which it cut in March. That prompted Chile to cancel a round of trade talks. Even so, some Bolivians fear that their country will gain as little from gas exports as it did from its mineral wealth under the Spaniards.

But exploiting its gas is vital if Bolivia is ever to start growing out of poverty. Gas revenues are the only obvious solution to the budget deficit. Mr Mesa has called a referendum on the issue of gas exports, to be held in July; the government has also proposed higher taxes on oil and gas firms.

Officials insist that the protests involve a small minority. Certainly, they seem to have less backing than in October, thanks partly to rivalries among the left-wing leaders. Evo Morales, the leader of the coca workers who has his sights set on the next presidential election, said that striking now was “suicide”. Even so, nerves are on edge in La Paz, with much feverish talk of coup plots and impending insurrections.

Mr Mesa has called for the “silent majority” of Bolivians to take to the streets to oppose the union radicals. His call was answered by a new middle-class movement called *Somos Bolivianos Queremos Paz* (We are Bolivians and we want Peace). It could be that the threat to democracy in Bolivia has passed its zenith. But governing the place remains a thankless job.

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Vietnam's economy

The good pupil

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AFP

Vietnam has become one of the fastest-growing countries in Asia

IF FOREIGN investment is anything to go by, the nominally communist rulers of Vietnam have made their peace with capitalism. The country raked in foreign direct investment worth more than 8% of GDP last year: even more, proportionally, than China. After its oversized and overheating neighbour, Vietnam also boasts Asia's best-performing economy. It has grown by an average of 7.4% a year over the past decade and is likely to achieve a similar figure this year. Better yet, the boom has lifted many Vietnamese out of poverty. As recently as 1993, the World Bank considered 58% of the population poor. By 2002, that had fallen to 29%. Can Vietnam maintain this remarkable momentum?

So far, its economy has proved unstoppable. Neither last year's outbreak of SARS, a respiratory disease which scared away tourists, nor this year's avian flu epidemic, which hurt poultry farmers, made much of a dent. Even during the Asian financial crisis of the late 1990s, when other countries in the region were plunged into recession, growth in Vietnam never fell below 4.8%.

At first, agricultural reform, which redistributed land from the state to poor farmers, propelled the boom. More recently, export growth, fuelled by cheap, efficient labour and burgeoning foreign investment, has driven the economy. Exports leapt 20% last year. As Do Duc Dinh, a local economist, points out, the money Vietnam earns from this trade—roughly $20 billion last year—now dwarfs the $2 billion-odd it gets each year in hand-outs from foreign donors. Vietnam's exports to America doubled in 2002, after the two countries signed a trade pact, and again in 2003.

Admittedly, as trade with America grows, it has become more controversial. Last year, American catfish farmers, by invoking arcane anti-dumping laws, persuaded their government to impose steep tariffs on imports of Vietnamese catfish. Now American shrimp-fishermen are trying to repeat the same trick. American bureaucrats are also contemplating reducing the amount of garments Vietnam can export to America, as a penalty for allowing Chinese-made clothes to enter America on Vietnam's quota. Even if Vietnam is let off the hook, the quota will from now on only grow by a few percentage points a year. Between 2001 and 2003, by contrast, textile exports to the United States grew from $47m to $2.4 billion.

But Vietnam's diversified exports—it produces commodities, agricultural goods and manufactures—provide insulation against fluctuations in any single product. Its markets are diverse, too: although

catfish exports to America fell by a third after the new tariffs were imposed, overall exports of catfish grew, as Vietnamese exporters found new customers in Europe and Australia. Vietnam also hopes to join the World Trade Organisation next year. But even if this deadline slips, it still has its trade pact with America, its membership of AFTA, a South-East Asian free-trade area, and its proximity to China.

Small businesses have also boomed, since the government passed a new law in 2000 making it easier to set them up. By the end of 2002, over 50,000 new companies had sprung up. But as Martin Rama of the World Bank points out, Vietnam has almost no middling private firms between these mom-and-pop ventures and big exporters backed by foreign investors.

Such businesses find it hard to grow because they cannot readily get access to land or capital. About half of bank lending goes to state-owned enterprises, although that share is falling. What is more, even if banks (mostly state-owned themselves) wanted to lend to entrepreneurs, the latter have little collateral to pledge for their loans. In Vietnam, the state owns all the land and grants land-use rights to farmers, businesses and home-owners. Although these are theoretically transferable, banks are fearful that Vietnam's antiquated courts would not enforce their rights. Such fears have precluded a free market for land, further adding to private firms' difficulties. Corruption also weighs heaviest on small businesses: in some provinces, they can be subjected to as many as 15 different bureaucratic inspections each year.

The government, although trying to solve some of these problems, appears addicted to public enterprise. It continues to provide state-owned firms with loans and land—which many of them then rent on at a mark-up to the private sector. It invests with Stakhanovite zeal in impressive but uneconomical facilities, such as oil refineries, steel mills and fertiliser plants.

The net result is a massive misallocation of resources. Vietnam's ratio of investment to economic growth has fallen by roughly a quarter in recent years. To reverse that slide, argues Robert Glofcheski, an economist at the UN Development Programme, the government must revert to the same tactics that made its agricultural reforms so successful: more spending on health and education, further transfers of assets from the public to the private sector and faster deregulation.

Such moves are particularly important if poverty is to be reduced further. Thanks in part to the stunning success of the past decade, tackling poverty has become more difficult. The poor are now concentrated in remote, rural districts populated chiefly by ethnic minorities—just the sort of area least touched by the government's reform programme. Now that industry has replaced agriculture as the main engine of the economy, cities are growing faster than the countryside. Vietnam cannot afford to provide services to the rural poor, or cope with a population influx in the cities, and cosset state-owned firms at the same time—even during a boom.

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West Bengal

The thin red line

May 6th 2004 | KOLKATA
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A bastion of Indian communism rebrands itself

COUNTLESS hammers and sickles are still daubed on the crumbling colonial façades of what used to be Calcutta, now named Kolkata. And when the state of which it is capital, West Bengal, goes to the polls on May 10th, in the last stage of India's protracted national election, the parties of the Communist-dominated government seem sure to trounce the opposition. The state has enjoyed a baffling political continuity that has survived relentless economic stagnation. But even here, the reformist wind that has transformed parts of India is blowing hard. The Communists are in the throes of a makeover.

It was sorely needed. Kolkata was a byword for urban squalor and labour unrest. Buddhadeb Bhattacharjee, West Bengal's chief minister, jokes that the state's contribution to the Oxford English Dictionary was the word gherao, a siege by striking workers. Now, however, the coalition government led by his Communist Party of India (Marxist), or CPI(M), has passed a measure few right-wing regimes would dare attempt. In its effort to attract investment in India's highest-growth industries, it has classified information technology and related services as essential public utilities. Strikes are banned.

The emphasis on labour discipline is helping Kolkata compete with India's better-known IT hubs, such as Bangalore, Hyderabad and Chennai. It is, officials concede, a “late starter”, but wants to capitalise on its particular strengths in two of India's advantages: low costs, and a large pool of English-speaking graduates who are well-qualified as software engineers or in other back-office services, such as call-centres. Even in the big IT firms in Bangalore, Bengalis abound.

Kolkata has succeeded in attracting multinationals such as IBM, as well as Indian IT giants such as Wipro. Some 180 IT-services firms now employ 18,000 people. It is a belated attempt to reverse a decades-long outflow of businesses deterred by inept, intrusive and obstructive government and frequent labour disruption. West Bengal is a big state, with 80m people. But its share of India's industrial output fell from about 10% in 1980 to less than half that in the mid-1990s.

Yet the CPI(M)-led Left Front government has never faced a serious challenge since taking power in 1977. Its parties won 29 of West Bengal's 42 parliamentary seats in the last election. With 34 seats in all India, the CPI(M) was the third-largest party in the outgoing 545-seat parliament. It may play a pivotal role if, as exit polls so far suggest, the ruling Bharatiya Janata Party (BJP) fails to win an absolute majority for its coalition. The CPI(M) says its first objective at the national level is to defeat the BJP.

Mr Bhattacharjee attributes the party's popularity in the state to a single measure: land reform. Of the state's farmers, 94% are poor and now own 70% of the land. The party, as befits a Leninist organisation, is also well-entrenched at the grassroots, with 254,000 members and, says Anil Biswas, the state party-secretary, 4m supporters mobilising voters for the election.

He denies that these workers are uneasy about the government's courtship of business. Others, however, report disenchantment both among rural communists and the intelligentsia in Kolkata. But they have nowhere to turn. The opposition Congress party split seven years ago, and the breakaway “Trinamul” Congress joined the BJP-led government, which has little support in West Bengal.

Communist rule seems solid for a while, even if it is harder to discern what that means, now that Mr Bhattacharjee has embraced many of the tenets of India's economic reformers. His definition of communism is minimalist: “We say that capitalism cannot be the last chapter of human civilisation”. In the meantime, it seems, his government, like China's, is keen to appeal to the capitalists.

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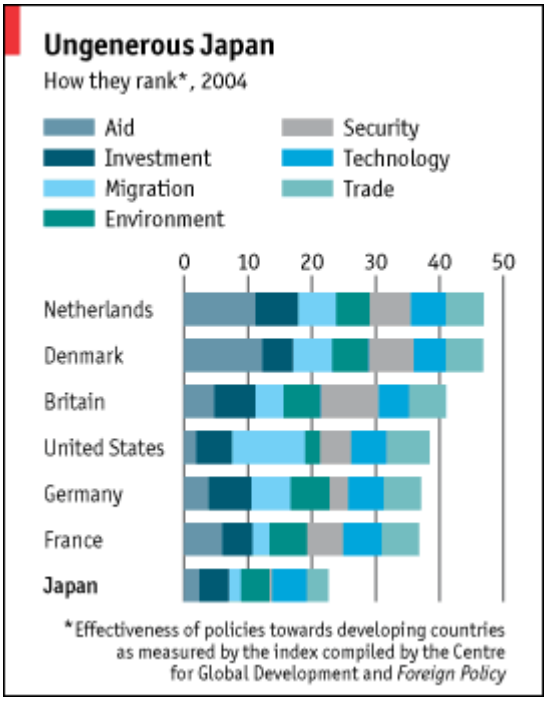
Japan's foreign aid

Not so nice

May 6th 2004
From The Economist print edition

Japan does less than other rich countries to help the poor

Get article background



HOW could such a benevolent country get so little respect? In the 1980s, Japan was criticised for protectionist trade policies. As its economy languished in the 1990s, "Japan bashing" gave way to "Japan passing" and the worry that the country's international clout was fading. If the world misjudges you whether your economy is growing or slowing, it is hard to believe that any argument will gain a fair hearing in the court of global opinion. But when they do try to defend their country's honour, many Japanese like to point out how generously they give foreign aid. Japan has been, along with America, one of the world's two main sources of aid for poor countries for over a decade.

Not so fast. Rich countries can help their poor counterparts in all sorts of ways, besides just giving money. They can also, for example, open their markets to imports, accept migrant workers and offer peacekeeping troops to bolster stability. So the Centre for Global Development (CDG), a research outfit, has teamed up with *Foreign Policy*, a bi-monthly magazine, to construct a Commitment to Development Index for 21 rich countries. In its second annual stab at this, published in the May-June issue of *Foreign Policy*, Japan has once again finished last.

Of the seven broad categories the index considers, Japan scores very poorly (14th or worse) in all but one (see chart). The only category where it makes a decent showing, landing in the middle of the pack, is in technology—a questionable measure that tries to capture global spillover effects from a country's R&D.

Start with aid. Although Japan gives large dollops of money each year, it also collects large debt payments from poor countries. Lenders have a right to be repaid, but this makes its net contribution look far less impressive than that of other rich countries. Nor are Japan's private citizens very generous: government aid aside, they give less than a cent each to poor countries. Only citizens in the southern European trio of Greece, Italy and Portugal are more miserly.

Japan's trade and migration policies are also notoriously unhelpful towards poor countries. A host of import barriers, and especially its protectionist farm policies, earn Japan a low ranking in the trade category: only Norway and Switzerland do worse. Japan is even less open to foreign workers than to rice imports, finishing at the bottom of the migration rankings. With 2.2 immigrants per 1,000 population entering from poor countries, Japan actually scores better than five other countries, including Britain and France. But Japan prefers immigrants who come and go to those who stick around, so its net migration figures are much worse.

Unsurprisingly, the other area in which Japan finishes last is security. It does, after all, have a pacifist constitution. Yet Japan's Self Defence Forces began participating in peacekeeping missions, such as to Cambodia and East Timor, in the 1990s. The index recognises that such missions tend to help the poor, but makes the assumption that only those approved by the United Nations or other international bodies

are helpful. All of Japan's peacekeeping missions have been UN-approved; but since it has contributed few troops relative to its size and military budget, they do not count for much in the index.

Japan's decision to send non-combat forces to Iraq earlier this year, after a UN appeal for general assistance, may lift it up the security rankings next time. Many Japanese pacifists regard the deployment as an unholy departure from Japan's traditional way of dealing with the world. Yet on at least one measure, sending soldiers to Iraq was one of the few gestures their country has made which could be seen as comparatively generous.

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Tourism in Afghanistan

Postcards from Kabul

May 6th 2004
From The Economist print edition

Foreign travellers venture into Afghanistan

FOR those blasé globe-trotters who think they have seen it all, a few audacious tour operators are offering new adventures. Once a must for archaeology lovers, wanderlusters and hippies in search of classy joints, Afghanistan largely disappeared from the tourist map in the late 1970s as the first Soviet tanks rolled in. But a few foreign tourists, unruffled by reports of kidnappings and shootings, are now rediscovering the country's breathtaking beauty and legendary hospitality.

A year ago, an adventure-tour operator, Hinterland Travel—which also offers visits to Iraq—led 12 people from the Iranian border to the Khyber pass, which connects Afghanistan to Pakistan. Over ten more have now signed up for its next trip to the central and northern part of the country in July, and another expedition is planned for September.

Travel Afghanistan, under the stewardship of Matthew Leeming, a seasoned Afghanistan hand, is now introducing a knot of seven travellers to the country's many wonders. The programme includes a road trip from Kabul to Bamiyan, followed by the exploration of the hidden valley of Ajar, once a royal hunting ground. The second leg of the three-week trip will cover Herat and the nearby Jam minaret.

Lonely Planet, which publishes guide books to remote corners of the world, has made its complete (though outdated) chapter on Afghanistan available online “due to overwhelming interest”.

“I could not have wished for more hospitable people,” marvels Peter Loewes, a retired UN employee of 77, just back from a holiday in Afghanistan. He says his long connection with the region—he was born in Quetta, just across the border in Pakistan—and a taste for excitement guided his choice of destination. But he admits that this was much tougher than many previous trips off the beaten track. Bad or non-existent roads, unreliable planes and basic accommodation do not make for comfortable—or predictable—travelling.

Tour operators argue that insecurity is exaggerated: use common sense—and tread carefully. According to Geoffrey Hann of Hinterland Travel, landmines are the chief security problem. Those who doubt that can turn to Mr Leeming's website, which includes a reassuring message from Mirwais Sadiq, the minister for tourism, confirming that the northern parts of the country are perfectly safe. Sadly, Mr Sadiq was recently assassinated in Herat.

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Indonesia

Uncertain alliances

May 6th 2004 | JAKARTA
From The Economist print edition

But a clear to-do list

AFP

Standing up for Basyir

Get article background

ONE month after Indonesia held what was dubbed the world's most complex one-day vote, the official results of the parliamentary election have at last been announced. They confirm the predictions made weeks ago: President Megawati Sukarnoputri's Indonesian Democratic Party of Struggle (PDI-P) was the big loser, with its share of the vote plunging from 33.7% in the 1999 election to 18.5%. On the other hand, there was no conspicuous winner.

No party has come even close to winning a majority of the parliament's 550 seats. Instead, seven parties have won a significant number each. With over 21% of the votes, compared to 22.5% in the last election, Golkar, the reinvented political machine created by the disgraced former president Suharto, won the most seats (128) but had expected to do better.

It was followed by the PDI-P with 109 seats and the United Development Party of Vice-President Hamzah Haz with 58. The newly created Democrat Party—the political vehicle for Susilo Bambang Yudhoyono, a former general and the frontrunner in the upcoming presidential elections—scooped up 57 seats and about 7% of the vote. Three Islamic parties got around 50 seats each.

Just how these major blocks will align to form a functioning legislature will not be decided until a president is chosen—by, for the first time, a direct election. The first round is due on July 5th, with a likely run-off scheduled for September 20th.

Although the coalition permutations are too numerous to contemplate, one theme is emerging. For the first time, Indonesia will almost certainly have a significant parliamentary opposition. Under presidents Suharto and B.J. Habibie, the opposition could, at best, be described as token. Abdurrahman Wahid and Miss Megawati plumped for all-encompassing coalitions. This time, the direct election for president will produce obvious losers, whose parties are likely to be kept out of any coalition government.

These outsiders will probably either include one of Golkar or the PDI-P or, if the two largest parties unite, several of those immediately below—particularly the Islamic parties. The Prosperous Justice Party has already said it will remain out of government, and Mr Wahid has said he would not sanction any alliance of his National Awakening Party with the PDI-P.

Regardless of the ultimate alliances, Indonesians and foreigners alike will be looking for three things from the incoming representatives. First, a healthy relationship with the new president—who should be better able thanks to his direct mandate to fight corruption and stimulate the economy. Second, attendance and a willingness to work. The outgoing parliament passed only a fraction of submitted bills, which has done little to boost a disappointing economic growth, low investment and deteriorating infrastructure.

Last, a realistic approach to fighting terrorism is needed. The re-arrest on April 30th of a radical cleric, Abu Bakar Basyir, on suspicion of involvement in terrorism, including the Bali bombing, is dividing the nation. The police claim to have new evidence that he is the leader of Jemaah Islamiah, the regional terrorist network linked to al-Qaeda. Others accuse the government of pandering to the United States and Australia. Wherever the truth lies, Mr Basyir's fate looks likely to become an increasingly political issue. Meanwhile, on May 4th, a bomb that went off in Pekanbaru, Sumatra, is a reminder that any new government will have to find a strategy to defeat the ever-present terrorist threat.

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China

Into the swing

May 6th 2004 | BEIJING
From The Economist print edition

China is discovering golf

THE proliferation of golf courses in China is worrying the country's leaders. The first one was built only 20 years ago as China began to relax its curbs on bourgeois lifestyles. Now the country has about 200 of them. And according to Chinese press reports, as many as 1,000 others are planned. Or at least they were, until the government ordered this year that all new projects be put on hold.

This is bad news for local governments and property developers who believe that no industrial park or villa complex is complete without a nearby golf course. Such facilities, they think, attract businesspeople, especially foreigners. Never mind that most of China's golf courses are running at a loss. Their chief purpose is usually to help sell luxury housing or attract investment rather than turn a profit.

The problem is that China's frenzy of golf-course construction is consuming precious arable land and scarce water resources. Beijing, a city of fast-dwindling water supplies, already has 19 golf courses. Another ten are under construction. Getting permission to convert arable land to other uses is difficult. But according to Chinese press reports, only two of the courses being built in Beijing have such approval.

In recent months, the government has been trying harder to curb the misappropriation of arable land, as well as reckless investment. The building of golf courses is just one facet of an investment boom that officials fear could be turning into a bubble, the bursting of which might result in sharply decelerating economic growth. The investment rush has aggravated the problem of the illegal use of farmland. In recent years, millions of peasants have been pushed off their land. Angry farmers have been petitioning the government in record numbers.

For now, approvals for new golf courses are to be withheld until new regulations are issued. Last week, the government ordered that all golf course projects be checked by mid-June. Those lacking the right paperwork are to be scrapped. But local governments are adept at circumventing policies they believe to be against their economic interests. And golf, as China's growing ranks of devotees will tell you, was invented by the Chinese—though they admit the Scots would dispute this.

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War and the law in Iraq

Crime and punishment

May 6th 2004
From The Economist print edition

Getty

Getting to the bottom of the reports of mistreatment of Iraqi prisoners will be hard; punishing all the evil-doers properly may be even harder

Get article background

EVERYONE knows that even the most civilised countries sometimes break the rules in the stress of battle. But few people, at least in the West, had suspected that things were this bad. All around the world, people have been reacting with horror to revelations of American, and possibly also British, troops subjecting Iraqi civilian detainees to such cruel and inhumane practices that some have died. In Arab countries, the outrage, and mistrust of America, have rarely been greater.

These are no longer the unverifiable allegations of former detainees, from Iraq or Afghanistan or in the detention camp at Guantánamo Bay, with an obvious interest in blackening the reputation of their former captors. These are the conclusions of an official American military inquiry into the treatment of prisoners at Abu Ghraib, Saddam Hussein's former notorious centre of torture and summary executions near Baghdad, now used by American forces as their main detention and interrogation base for around half their 8,000-odd Iraqi “security detainees”.

The 53-page report, drawn up by Major-General Antonio Taguba in late February, details numerous instances of “sadistic, blatant and wanton criminal abuses” of detainees by American troops, male and female, in an attempt to “set favourable conditions for subsequent interviews”. At first classified secret, it became public this week after leaks in the media.

Among the abuses listed in the report and by American eye-witnesses are: sodomising a detainee with a chemical light; pouring phosphoric liquid on detainees; beatings; threats of rape and electrocution; stripping detainees naked; and forcing them to masturbate and simulate other sex acts in public. Photographs and videos taken by American soldiers who allegedly witnessed the abuses were not included in the report because of their “extremely sensitive nature”, said the major-general.

But several were carried by CBS, an American television channel, on its programme, “60 Minutes”. One (shown on our cover) is of a hooded prisoner, arms outstretched, standing on a box, with wires attached

to his genitals and other parts of his body. There is no suggestion (yet) that electric shocks had actually been administered; the prisoner was reportedly told he would be electrocuted if he fell. In another, leering American soldiers are seen pointing and giving a thumbs-up as a young Iraqi, naked except for a sandbag over his head, is made to masturbate. A third shows a pile of naked, hooded detainees being watched by two grinning American soldiers. Such sexual humiliation is particularly offensive in the Arab world, where Islam forbids homosexual acts and frowns on public nakedness.

The alleged abuses came to light in January after one soldier, sickened by what he had seen in photographs, told his superiors. A criminal investigation was immediately set up. Six American army reservists, among them two women, are facing courts martial. Several other soldiers, including Janis Karpinksi, an army reserve brigadier-general previously in charge of the Abu Ghraib prison, have been reprimanded and suspended from duty but are unlikely to face criminal charges.

The British government has likewise ordered a military investigation into allegations of abuse by British soldiers (see article). On May 1st, the *Daily Mirror* published photographs purporting to show British soldiers kicking and urinating on a hooded detainee in Basra. Despite growing doubts as to the photographs' authenticity, the affair has hugely embarrassed the government, which fears it will damage attempts to win Iraqis' “hearts and minds” and further imperil British forces.

President Bush went on two Arab-language television networks, roundly condemning the abuses but falling short of a direct apology, which top colleagues have issued. American officials insist that only an isolated handful of soldiers were responsible. But there are indications not only that such behaviour may have been more widespread but also occurred with the full knowledge and even encouragement of the miscreants' superiors. Having at first “categorically” stated that there was “no evidence of systematic abuse”, General Richard Myers, chairman of the American Joint Chiefs of Staff, has now admitted that he “could not be sure”.

According to Staff Sergeant Ivan “Chip” Frederick, the most senior of those so far facing criminal charges, he and his fellow reservists had simply been carrying out their orders, in particular from military intelligence. They had, he said, been told they had been doing a “great job”; a lot of useful information had been extracted as a result of their work.

Under international law, all detainees, military or civilian, must be treated humanely. In no circumstance may they be subjected to torture or any other “cruel or degrading” treatment. Pleading “exceptional circumstances” or “higher orders” is no excuse.

Brought in last month to head detention operations in Iraq, Major-General Geoffrey Miller, formerly in charge of the Guantánamo Bay centre, claimed this week that only “authorised interrogation practices” were now being used in Iraq. All threats, hooding, and “physical contact” with the detainee were prohibited. Sleep deprivation and stress positions could be used but only under special authorisation from a high-level authority. He, personally, was opposed to such methods, finding them counter-productive. Interrogation of detainees while naked was “not one of the authorised techniques”.

But in the last 16 months, the American military admits that it has carried out 25 criminal investigations into deaths and ten into allegations of misconduct involving detainees in Iraq and Afghanistan. Of the ten deaths deemed to have taken place in suspicious circumstances, two have been classified as criminal homicides. A soldier found guilty in Iraq was given a dishonourable discharge but was not jailed. In the other case, in Afghanistan, the person involved was working with the CIA and was not charged with a crime.

When there is any breach of international law, it is up to the state whose citizens are held responsible to ensure that the culprits are brought to justice. The problem is that many allegations of abuse never come to light, particularly where the armed forces are involved. And even when they do, the culprits often seem to get off with a mere reprimand or a less-than-honourable discharge. This time, with the world watching, the sanctions may have to be much more exemplary.

If a state is deemed to have dealt with its citizens too leniently, the case could go before the International Criminal Court—but only if either the state of the perpetrator or the state of the victim is a signatory to the court. Neither the United States nor Iraq is.

Donald Rumsfeld, America's defence secretary, is under growing pressure in Washington to take personal responsibility for the scandal. He said he was “stunned by all of it”. The soldiers' actions in the photographs were “totally unacceptable and unAmerican”. But it was “an exceptional situation, not a

pattern or a practice". Six investigations had been launched by the Pentagon, he said. But will they get to the bottom of the affair?

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Iraq's armed forces

DeBaathify, then reBaathify?

May 6th 2004 | BAGHDAD
From The Economist print edition

Is Saddam Hussein's old army coming back into the fold?

Get article background

EPA

THE good news for the United States is that Fallujah, the city at the heart of Iraq's insurgency has, for the time being, fallen strikingly quiet. American forces have lifted their three-week siege and withdrawn beyond the town's perimeter. Many of the 100,000 residents who had fled have come home. Americans and Iraqis who were fighting each other have agreed to create a “Fallujah brigade”. Insurgents who hours earlier were shooting at Americans happily accepted American offers of cash, radios and uniforms.

Many Americans—and Iraqis—in Iraq worry that these short-term gains have come at the cost of rehabilitating the old security apparatus that the Americans have travelled so far to crush. But already America's generals are touting Fallujah as a model for pacifying other rebellious towns. “They feel like it's a solution that could work elsewhere,” says the marines' commander, General Jim Conway. “There are obvious advantages to it.” An Iraqi general said that the deal over Fallujah could serve as a precedent for Iraq's other most bloody-minded cities: Ramadi, Kufa, Najaf, Karbala, Basra, Mosul and even for “beloved Baghdad, Iraq's beating heart”.

Most of the rebels, with whom this tentative but so-far-successful accommodation had to be made, served in Saddam Hussein's vast security forces and were disenfranchised overnight a year ago, when America's proconsul in Iraq, Paul Bremer, stripped them of their income and jobs. Mr Bremer has now also softened his deBaathification order, which barred senior members of Mr Hussein's regime from power. This week he also ordered that many prisoners be freed.

Not only does this bring back many of Mr Hussein's men into public service. It also authorises a new militia at a time when militias were supposed to disband. In Fallujah, the Americans forgot their previous demands that, as the price for peace, the rebels' heavy weapons should be handed over, along with foreign *jihadis* and those who had killed and mutilated four American private security men who had been ambushed in the town. Fears that the *jihadis*' flight would trigger a new wave of bombings were confirmed on May 6th when a suicide car-bomb killed six people in Baghdad, ending several weeks of respite in the capital.

The deal over Fallujah makes many Baghdadis feel edgy. They fear that the insurgents will now go elsewhere in search of new targets. A rebel Shia cleric, Muqtada al-Sadr, who led a wave of uprisings in Shia cities in the south a few weeks ago, will be encouraged too, though American forces this week began to flush his Mahdi army out of Karbala and another town in the south. Still holed up in Najaf, Mr Sadr says that he has learnt a lesson from Fallujah: “if you want to be friends with America, you must fight it.” The revival of a Sunni Arab militia has given Kurdish and Shia militia commanders good cause to reconsider their earlier promise to dissolve and join a new army.

Iraq's new American-appointed defence minister, Ali Allawi, is furious. His plans to create a united Iraqi army from the 50,000 strong Kurdish *pershmergas* (guerrillas) and the two religious Shia militias—the 10,000-strong Iranian-trained Badr brigade, which owes allegiance to the Supreme Council for Islamic Revolution in Iraq (SCIRI) party, and the 1,500 militiamen loyal to the Dawa party—are in tatters.

Disunity beckons

If it is deprived of a united army, Iraq is more likely to split down ethnic and religious lines. Mr Allawi's efforts to recruit from the 400,000 dismissed members of Mr Hussein's armed forces or to tempt them on-side with offers of a pension and employment scheme have been undermined. Now Mr Hussein's former soldiers may be able to choose between a career in Mr Allawi's forces and in those run by former Baathist generals.

Mr Allawi has 35,000 troops under his control. They could expand to 80,000 by mid-May, when his ministry takes over the 45,000 local levies of the Iraqi Civil Defence Corps. He reckons his lightly-armed forces could grow to 125,000. Mr Allawi wants to deploy most of them on Iraq's porous borders but is also setting up a “special task force” division, 10,000-strong, that could be sent to flashpoints such as Najaf, to keep Americans out of the fray.

But Mr Allawi and the new interior minister, Samir Sumaidy, are struggling with the divided loyalties of many Iraqis, especially those serving in the revamped army and police. When Sunni and Shia insurgents rebelled last month, even the previous interior minister's brother, who ran Basra's police, switched sides.

By contrast, the Fallujah brigade has cash, arms and discipline. It may be only 600-strong but it can call on a network of thousands, perhaps tens of thousands, of like-minded men, mostly ousted soldiers from the old army, within the Sunni triangle around Baghdad. The deal over Fallujah suggests that some of the insurgents care less for now about ending the occupation than winning recognition as America's partners. Many senior Iraqi officers already hail the deal as the first step on the path to replacing Iraqi civilian rule with Iraqi military rule, which is more likely, they argue, to bring about the stability which America craves. “Democracy will never take root in Iraq,” says a former Baathist general. “Only the Iraqi army can cow the population into acquiescence.”

Mr Allawi, an Oxford don before he became defence minister, has refused to bring the Fallujah brigade into his fledgling army. He will not, he says, rehabilitate Republican Guard generals whom he blames for the deaths of 300,000 Iraqis, mostly Shias, killed in 1991 during the suppression of the uprising after the first Gulf war.

Mr Allawi is strongly backed by anti-Baathist Shias in the soon-to-be-dissolved Governing Council (GC), who share his fear that a belt of subversive ex-Baathist brigades could soon encircle Baghdad. They fear, too, that when an interim Iraqi government takes office in July, the old and new armies could clash. Military coups, after all, punctuated Iraqi history throughout the last century. “No other institutional force is more powerful than the former army,” worries a Shia on the GC.

The defence minister worries that President Bush may be drawn to the idea of stability in Iraq, even if that means military rule. Iraqi democrats are talking nervously about the restoration of “Saddam Lite”.

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Iran

Mocking mullahs

May 6th 2004 | TEHRAN
From The Economist print edition

A funny new film has put Iran's real leaders in a damaging quandary

Get article background

AP

Ladies love the lizard

DISENCHANTED by their theocratic government, many Iranians enjoy the not uncommon sight of a gowned cleric standing helplessly at the side of the road, hailing taxis that refuse to stop. They make fun of *akhunds*, an impolite word for mullahs, and crack jokes about seminarians whose ambition is to parrot their teachers' every banality. Iranians have always chuckled in private.

Until April 21st, that is, when “Marmulak” (Lizard), a film that contains these and other impious jibes, came out in several Iranian cities. Kamal Tabrizi's comedy, about Reza, a fugitive criminal disguised as a mullah, is very funny. But it is also a taboo-breaker, which is one reason it has enjoyed the most successful opening in Iranian film history.

“Marmulak” punctures clerical self-esteem more comprehensively than any Iranian film since the ayatollahs took power in 1980. The film shows Reza, resplendent in gown and turban, flirting with a comely widow, picking the pocket of a Tehran swell and fluffing his lines after inadvertently becoming prayer leader of a small-town mosque.

Jumhuri-ye Eslami, a conservative newspaper, says that such scenes insult Iran's “religion, government and people”. Others, however, point to the success of Reza's idiosyncratic sermons in drawing worshippers to his mosque, and to his bent for pious deeds. “Marmulak”, they argue, may even draw some of the sting of popular discontent.

Although censorship is in theory controlled by Iran's reformist government, headed by President Muhammad Khatami, it is unlikely that “Marmulak” could have been made without support from some in the conservative establishment. Though the film is not being shown in two cities known for their piety, Iran's most senior ayatollahs have so far expressed their unhappiness in private; it is still possible that the film will be taken off the screens.

Having used their unaccountable powers to kill Mr Khatami's reform movement, conservative clerics have never been less loved. But cathartic irreverence has its limits. This week a judge upheld a death sentence (unlikely, say most insiders, to be carried out) on a free-thinking academic, Hashem Aghajari. His crime? Criticising the mullahs.

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Israel

No, not an inch

May 6th 2004
From The Economist print edition

Mr Sharon's party has rejected his plan to pull out of Gaza. What next?

ARIEL SHARON, Israel's prime minister, was all smiles after casting his ballot on May 2nd. But within 20 minutes his aides, who had predicted a close race, were conceding defeat. Mr Sharon had asked the members of his right-wing party, Likud, whether they approved of his plan to remove Jewish settlements from Gaza, the lesser part of a would-be Palestinian state. Some 60% of those who voted, in a turnout of only 41%, rejected it.

Some voted no because they believe that Jews have a divine mission to settle all of the Promised Land. Probably more demurred because the proposed unilateral pull-out would, as they saw it, “reward terror”. Mr Sharon was not planning to demand concessions from the Palestinians in return; he simply planned to dismantle Gaza's 21 Jewish settlements and make 7,500 Jews leave their subsidised homes.

An emotive no campaign argued that capitulating in the face of suicide attacks would only encourage more terror. As if to bolster the naysayers' case, two Palestinian gunmen ambushed and murdered a pregnant settler and her four young girls during the vote as they were driving towards Ashkelon, near Gaza, to join other campaigners for a no vote.

Will the vote kill the plan or merely delay it? Formally, Mr Sharon said he would respect his party's views. But he suggested to the American government and to the leader of Israel's opposition Labour Party, Shimon Peres, that he intends to go ahead regardless. Mr Sharon's deputy, Ehud Olmert, hinted that the pull-out plan might be modified, though he did not spell out how. There is talk of a “mini-withdrawal” or of a “midi” plan to remove some, but not all, of the settlements.

Whatever his ultimate goal, Mr Sharon will have to alter his tactics. He could call a snap general election, though this is unlikely. He could ignore his party and win endorsements by his cabinet or by parliament. Or he could hold a nationwide referendum on the pull-out. All these options would be politically risky. Mr Sharon would be acting against the clearly expressed wishes of the party he helped to found. Likud might even split.

Since Israeli law does not allow for binding referendums, Mr Sharon would have either to change the law or to settle for an advisory referendum, in the hope that it would encourage parliament to back his plan. He would probably win such a poll.

The average Israeli is less allergic to surrendering land than the average Likudnik. Opinion polls indicate solid support for a withdrawal from Gaza. Probably most Israelis believe that, on balance, the settlements there make them less safe. The need to defend a handful of settlers swallows up a huge chunk of the defence budget, while their presence enrages Palestinians.

Mr Sharon's other option is to play for time. Despite this week's stinging defeat, and an investigation into allegations of corruption, he is under little pressure to resign. Nor has his centre-right coalition been badly shaken. “I need time to reconstruct the plan,” Mr Sharon told Tommy Lapid, the leader of the centrist Shinui party, who is now his main ally.

The prime minister can probably count on American support. After the Likud vote, the White House reiterated its hope that the Gaza pull-out plan would be adopted “in some form”. President George Bush's perceived closeness to the Israeli leader has attracted criticism at home as well as abroad: 50 retired American diplomats wrote to him this week to deplore his policies in the Middle East which, they said, were losing America “credibility, prestige and friends”.

Even if the Gaza withdrawal were to go ahead, it would not resolve the question of what is to become of the equally controversial and much bigger Jewish settlements on the West Bank. For now, a negotiated peace deal seems remote, but on May 4th, two days after Likud's rebuff to Mr Sharon, the four backers of the almost discarded “road map” to peace between Israelis and Palestinians—the United States, the European Union, Russia and the United Nations—met to discuss how to revive it. For want of anything better, they endorsed the Gaza plan as “a positive step” that could “restart progress on the roadmap”, while they also, as usual, urged all sides to get back to talks.

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Football's World Cup

South Africa set to score

May 6th 2004 | JOHANNESBURG
From The Economist print edition

Big sporting events are not as profitable as their hosts expect. But who cares?

Get article background

IT IS Africa's turn to host the soccer World Cup, and about time too. Africans are holding their breath to find out, on May 15th, which of five nations—South Africa, Morocco, Egypt, Tunisia and Libya—will host the tournament in 2010. South Africa is the favourite. This week, a technical team from FIFA (the international football association) said that its roads, hotels, airports and stadiums were “excellent”, unlike those of other bidders. South Africa's experience hosting the cricket and rugby World Cups—smaller events, but they passed without many glitches—should also help its bid. Having Nelson Mandela's support is handy too.

South Africans felt cheated when pipped for the right to host the 2006 cup by Germany, by just one vote. A local cartoonist suggested that if the FIFA official who swung the vote against them were to visit South Africa, he might be encouraged to photograph some hungry lions up close.

Whoever is picked next week will celebrate. The World Cup boosts national pride and even makes politicians more popular. When Italy hosted and won it in 1934, Mussolini praised his footballers as “soldiers”. Jacques Chirac boasted of a “France that wins” when a French team triumphed in Paris in 1998. “Have you noticed how we only win the World Cup under a Labour Government?” asked Britain's Labour prime minister, Harold Wilson, after England's only win, in 1966.

South Africa's bid committee talks of a racially divided country uniting behind a shared obsession for sport: of football helping to heal the wounds of apartheid. They also claim that hosting the tournament will be lucrative. Danny Jordaan, who leads South Africa's bid, said this week that the cup would provide a 30 billion rand ($4.6 billion) lift for the economy and 156,000 new jobs.

Bidders always claim this. It seems plausible. Cumulative television audiences for a World Cup are measured in tens of billions, so broadcast rights are pricey: over $1.7 billion for the 2002 and 2006 cups. But that goes to FIFA . The host nation has to make do with income from tickets, merchandise, hotel rooms and sponsorship. The 2010 cup is predicted to generate over $3.2 billion in total revenue (including TV), but the host will have to sell tickets at prices Africans can afford.

None of the many past studies has shown a convincing, long-term economic benefit from hosting a big sporting event, says Stefan Szymanski, an economist at Imperial College, London. Too much is spent on white elephants: big stadiums typically cost $400m each, but are rarely needed again. “It is the economic equivalent of building a huge bridge that you use only once,” he says.

Tourism gets a boost but only temporarily. Evidence from Sydney and Barcelona, hosts of successful recent Olympic Games (and tourist spots long before that), suggest long-term tangible gains were negligible. But who cares? The World Cup is mostly about intangibles, such as fun.

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About sponsorship

Poland's unruly politics

When populism trumps socialism

May 6th 2004 | WARSAW
From The Economist print edition

Over the next year, Poland's political climate could turn unsettled

Get article background

GEORGE BUSH should go on trial for invading Iraq. Poland should set about leaving the European Union unless it can rewrite its terms of entry to get a better deal. Half the Polish National Bank's reserves should be used to subsidise cheap loans for farmers and homebuyers. And if that causes the zloty to slump, no tragedy: the currency is overvalued as it is.

A far-fetched manifesto? Maybe not. As many as 20-30% of Polish voters support the author of these ideas, Andrzej Lepper, a former boxer who still keeps a punch-bag in his office. That clout puts his left-wing populist party, Samoobrona (or Selfdefence), first or second in most opinion polls. Its main rival is a right-wing party called Civic Platform, which leans to liberalism on economic issues and conservatism on social ones. Both are streets ahead of the ruling socialist party, the SLD, whose leader, Leszek Miller, resigned as prime minister on May 2nd, the day after Poland joined the European Union.

In Mr Miller's wake, President Aleksander Kwasniewski has asked an ex-finance minister, Marek Belka, to form another socialist-led government. Mr Belka's prospects of success are mixed (see article). If he wins a vote of confidence in parliament, at first or second attempt, his government—little changed from Mr Miller's—may muddle along for a while, perhaps even until parliament's term ends next year. But a ruinous defeat for the SLD is likely, whenever the election comes. Two dozen of its parliamentary members have left to form a new party, Polish Social Democracy, hoping to distance themselves from the sleaze that helped to drag down Mr Miller's government.

The economic recovery that began last year may do little to pull the SLD out of its tailspin, though it could limit the number of protest voters rallying to Selfdefence. The Miller government fell between two stools in economic policy, upsetting investors with big budget deficits and supporters with promises to cut spending in the future. Selfdefence, founded as a small-farmers' movement 12 years ago, appeals more directly and unscrupulously to the millions who feel they have lost out in the transition from communism to capitalism. It promises to halve unemployment in four years, to increase social-security payments, to launch a big public-works programme, and to preserve what remains of state-controlled industry.

Selfdefence and Civic Platform both accept the principle of EU membership, but they dispute fiercely some aspects of it. Mr Lepper wants the EU to increase Poland's quotas for milk and steel production, and has said that he will “begin the process of secession” if these and other concessions are not granted. Civic Platform's parliamentary leader, Jan Rokita, coined the catchphrase “Nice or death” to denounce a planned reduction in the voting weights promised to Poland four years ago in the Nice treaty. The change from Nice forms a central plank of the EU's proposed constitutional treaty, making it essential to find a face-saving way for Poland to climb down if the constitution is to be saved.

The combative approach of Messrs Rokita and Lepper has helped to feed public doubts in Poland about the benefits of EU membership—as did disagreements over policy towards Iraq last year, which left Poland and other new countries feeling patronised or snubbed by France and Germany. Of all the EU's new members, Poland seems the likeliest to reject the draft constitution if it holds a referendum, which domestic political pressure is making increasingly likely.

But twitchy as they may be on some European issues, Selfdefence and Civic Platform otherwise offer a choice that could scarcely be starker: between Mr Lepper's barnstorming populism and Mr Rokita's Thatcherite conservatism. Elections to the European Parliament in June will give an early sense of how voters weigh the alternatives. A strong showing by Selfdefence may be echoed by the performance of populist and protest parties elsewhere in central Europe, such as the unreformed Communist Party in the Czech Republic and the left-wing Smer and HZDS parties in Slovakia. A common factor could be that, now they are in the EU, voters feel less obliged to choose reformist parties that go down well in Brussels, and can turn more readily to parties that are critical of the pain caused by economic and social change.

A good performance in the European elections would increase the psychological pressure on Mr Lepper to prepare for government, exploring coalition arrangements with, say, the left-wing Peasants' Party, or elements of the SLD, or even with the anti-EU League of Polish Families. But for the moment Mr Lepper talks of waiting until his party is strong enough to rule alone—which sounds a good excuse for staying in opposition, where it can court popularity while ducking responsibility. Another way forward might be for Mr Lepper to run for the presidency, a largely ceremonial job that comes up next year. He could hope to continue whipping up the public mood from there, while Selfdefence did the same in parliament.

Mr Rokita, on the other hand, is impatient for government. And the next election may get him there, if he can knit together a coalition in which Civic Platform is backed by Law and Justice, a smaller conservative party, and perhaps also by the new social democrats. This could be a promising combination, but it would have to work quickly—getting spending cuts out of the way early, avoiding any hint of sleaze or scandal, and aiming to preside over a steady inflow of EU funds, falling unemployment and high growth by the time it went to the country again four years later. Only that outcome could force Selfdefence and its like into retreat. A failure by Civic Platform, on the other hand, could leave Poland to purge its populism by the only means left: put the populists in power and let them make a mess of it—but also make a mess of the country.

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Poland's prime minister

Musical chairs

May 6th 2004 | WARSAW
From The Economist print edition

An empty seat for Poland at the next EU summit?

AP

Get article background

Belka, from Baghdad to Warsaw

COULD Poland be without a prime minister at the next EU summit? When a prime minister resigns, the Polish president chooses a replacement. But the nominee must win a vote of confidence from the lower house of parliament, the Sejm, with an absolute majority of its members. If this fails, the Sejm has two weeks to find a prime minister of its own. If it cannot, the president has a chance to make a second nomination who, this time, needs only a simple majority of half the Sejm. If this fails, the president calls early elections.

President Aleksander Kwasniewski's nominee, Marek Belka, a former finance minister who was until recently an economic adviser to the Coalition Provisional Authority in Iraq, may well lose his first (and more taxing) confidence vote next week. But parliament will probably not agree on an alternative, leaving the way clear for Mr Kwasniewski to nominate Mr Belka a second time, and with a better chance of winning a second, less stringent, confidence vote.

Until a new cabinet has been appointed, the constitution calls on the president to “oblige” the resigning government to “continue with its duties”. But Mr Miller says his resignation on May 2nd is final, leaving it unclear who might represent Poland at the European Union summit on June 17th-18th. If Mr Belka wins a confidence vote, he will speak for a government with little public support and perhaps only a few months left in office. But if no new prime minister has been found, Mr Kwasniewski may have to represent his country alone.

The Irish government, which holds the EU presidency, hopes to secure final agreement in Brussels on the draft constitutional treaty. For that to happen, Poland must accept a new voting system that gives it less power. Any Polish concession is likely to prove very unpopular with voters at home, increasing the risk that they will reject the constitution in a referendum. Polish opponents of the treaty will find their work a lot easier if they can question the political legitimacy of yielding on such a vital national interest in such unsettled political circumstances.

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Georgia and Ajaria

The comic opera ends

May 6th 2004
From The Economist print edition

The president of Georgia wins his stand-off with Ajaria

Get article background

ALMOST all post-Soviet states are failing, but some fail more than others. That rule helps in understanding the success this week of Mikhail Saakashvili, Georgia's president, in reasserting control over the breakaway region of Ajaria. In the days of his predecessor, Edward Shevardnadze, this comic-opera statelet in Georgia's south-west corner functioned a bit less badly than the rest of the country: it was a fief of its diminutive leader, Aslan Abashidze, who enjoyed cosy relations with local Russian generals and a share of the spoils from cross-border trade in oil and other commodities. Compared with the chaos in the rest of Georgia, Ajaria was a haven of normality; streets were swept and opposition barely existed.

EPA

Celebrating with Saakashvili

But things are different under Mr Saakashvili, who forced Mr Abashidze to flee the country on May 5th—calling him a “mini-Saddam Hussein”—and then flew to Batumi, Ajaria's capital, to savour victory. The new Georgian leader has brought fresh dynamism, plus a thumping popular mandate, to the task of making his country more of a proper state. After six months in power, he has managed to collect more taxes, raise the pay of customs officers, pay pensions and arrest some very rich people. The way these folk have been hauled in and induced to pay large sums of money to the Georgian treasury might not always satisfy Mr Saakashvili's erstwhile law professors at Columbia University. But it has started to look as though Georgia is the real state—and Ajaria the failed one.

That is how Mr Saakashvili was able to raise the pressure on Mr Abashidze to step down and seek haven in Russia. “The time for babbling is over,” Mr Saakashvili said, as he ordered his army—whose abilities American advisers have struggled to improve—to stage exercises on the statelet's boundary. “We will never again allow the appropriation of any part of Georgia by bandits, narcotics dealers and local feudal lords.” For all his subsequent defiance, Mr Abashidze's power melted away. His coastguard—one seaworthy ship—sailed to Poti. The commander of an army brigade based in Batumi declared his loyalty to Mr Abashidze, only to find most subordinates going the other way. This week thousands demonstrated in support of Mr Saakashvili in Batumi (he claims to have 90% support in the region). Finally, late on May 5th, a former Russian foreign minister, Igor Ivanov, who had helped to ease out Mr Shevardnadze last

November, performed the same trick with Mr Abashidze. A jubilant Mr Saakashvili told the people of Batumi “you are heroes”. He added that “Georgia will be united”.

He had to tread carefully in Ajaria because of a sprawling ex-Soviet base near Batumi, a legacy of the days when this was a cold-war frontier between the Red Army and Turkey, a NATO member. Only 1,500 troops are there now, says Richard Reeve, a security analyst with Jane's information group, and most are Georgians in Russian uniforms. Mr Saakashvili insists that the Russians will fulfil their promise to pull out of all their military bases in Georgia; he says Vladimir Putin, Russia's president, is “easy to deal with and keeps his word.” Yet Moscow recently deployed several hundred Russian soldiers to Batumi; and when the bridges linking Ajaria to the outside world were deftly blown up on May 2nd, Georgian leaders detected Russian, not Ajarian, expertise. To subdue Ajaria, Mr Saakashvili needed the assent of powerful Russians; he appears to have got it.

The focus may now shift to two other Georgian regions, Abkhazia and South Ossetia. Previous presidents of Georgia tried clumsily to quell rebellions in those areas—and instead triggered dirty and unsuccessful wars. Mr Saakashvili is realistic about the two breakaways, saying merely that he hopes to lure them back by creating a prosperous Georgia. In Ajaria, his tactics worked. But it will be harder in South Ossetia and—especially—in Abkhazia, which is even dearer to Russian hearts.

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Armenia

Protest voters

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From The Economist print edition

The chances of change in Armenia remain small

UNTIL recently, Armenia was quieter than its neighbours. Armenians seemed to have little to complain of. The economy has racked up ten years of growth, inflation is low, the currency stable. President Robert Kocharian's government has largely ensured access to light, heat and other basics. Yet the opposition has been staging increasingly noisy protests calling for the departure of Mr Kocharian, whose March 2003 re-election was widely seen as fraudulent. As a minimum, the opposition wants a referendum to test support for the government, a compromise recommended by Armenia's constitutional court. Mr Kocharian has given dark warnings to participants in “illegal” protest rallies, and arrested ringleaders. Vehicles driving into Yerevan have been forced back, for fear they might carry demonstrators. One 6,000-strong protest was greeted by water cannons.

Armenia lacks some necessary ingredients for a Georgian “rose revolution”. Corruption is rampant, and few people outside Yerevan enjoy the fruits of growth. But Mr Kocharian is less widely hated than was Edward Shevardnadze. Generous foreign aid—Armenia is one of the biggest per-head recipients in the world—has obscured government thievery. Mr Kocharian keeps a steely grip on the local airwaves, in contrast to the thriving independent media of Georgia. Russia is still a strong supporter. And the Americans, who helped to push out Mr Shevardnadze, seem more concerned with stability than democracy—though American presence in Armenia is quietly increasing. The opposition is led by Stepan Demirchian, who lacks the charisma of Georgia's Mikhail Saakashvili. Many local observers fear that he and Artashes Geghamian, another opposition leader, are more interested in a turn at the trough than in real change. The marked absence of young people at most protest rallies reflects a deep cynicism about politics.

Meanwhile, the ten-year ceasefire in the war over the disputed enclave of Nagorno-Karabakh is under strain. Azerbaijan's president, Ilham Aliev, has been sabre-rattling to drum up support. At a recent World Economic Forum meeting in Warsaw, where the three Caucasian presidents met, Mr Aliev dismissed any talk of freeing up trade until Armenia stopped occupying part of his country. The blockade of Armenia's borders by Azerbaijan and Turkey looks like continuing. And prospects for change in Armenia remain bleak.

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Reality television

Down on the farm

May 6th 2004 | PARIS
From The Economist print edition

What a celebrity-TV show says about French attitudes to rural life

RENOWNED abroad for their fine culture, at home the French busily consume trashy television. The latest hit is “La Ferme Célébrités”, a reality-TV show that maroons 14 C-list celebrities on a Provençal farm, with neither running water nor electricity. The contestants include a Caribbean-born transvestite who totters across the mud in stilettos and a germ-phobic choreographer who dons rubber gloves while trying to herd sheep. Last month's opening night beat French records for reality-TV, pulling in 8.5m viewers, or 46% of the audience. Why has it touched such a nerve?

In part, it is popular devotion to low culture, a phenomenon often ignored by the elite. A few politicians have noticed: Gilles de Robien, the transport minister, invited Elodie Gossuin, a former Miss France who is on the show, to stand on his centre-right list at March's regional elections. She won a seat. Her participation in the TV show prompted local tut-tutting, but a poll showed that most people saw no conflict of interest. Ms Gossuin was even given permission by TF1, the station airing the show, to nip out to attend council sessions.

The show's casting breaks new ground. The contestants may lack stardom, but not diversity. Every tint, from black African to swarthy Corsican, is represented. Throw in the middle-aged, sexually ambiguous or fat, and there is a mix that defies the usual rules of all-young, all-beautiful prime-time French television. But the biggest reason for the show's appeal is what it says about rural life. Farming has long had a peculiar grip on the French imagination, blending nostalgia with genuine traditions. Politically too it holds unusual power. President Jacques Chirac, whose political life began in rural Corrèze, is a staunch defender of EU farm subsidies. Today, though, only 3.5% of the working population is engaged in agriculture. The celebrities in the show were picked partly for their ignorance of farming—though they managed to deliver a kid goat. But their metropolitan disconnect from rural life strikes a chord with viewers.

Needless to say, this depiction of farming life also upsets real farmers. This week, the Confédération Paysanne, a rural union formerly run by José Bové, an anti-globalisation campaigner, threatened to blockade the set. Scores of farmers gathered to demand that TF1 close down the show. The series, they said, “ridiculed” farming life and gave the rural world a “degrading image”. A few years ago, Mr Bové's confederation trashed another symbol of evil, McDonald's. Between junk food and junk TV, rural life in France appears to be perpetually under threat. But many French people seem to like both.

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German economic policy

The Keynesian temptation

May 6th 2004 | BERLIN
From The Economist print edition

The German government considers spending its way out of trouble

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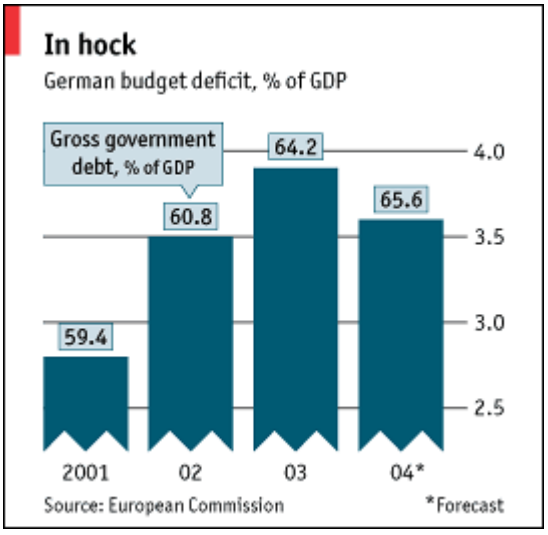

DEMONSTRATING independence over Iraq paid off handsomely for Gerhard Schröder, the German chancellor, in the September 2002 election. Without his unwavering opposition to America's pre-emptive war, he would surely have lost. Might he now be tempted to show a similar popularity-winning independence over fiscal policy—even if this kills, once and for all, the euro's stability-pact limits on budget deficits?

The idea is certainly germinating, even if both Mr Schröder and Hans Eichel, his finance minister, took pains this week to deny press reports of a Keynesian conversion. These two and others met on April 28th to discuss saying "farewell to budget tightening", according to *Der Spiegel*, which broke the story. The weekly also ran an interview with Joschka Fischer, the foreign minister, in which he said that spending cuts alone would not generate badly needed growth.

Early this year, Mr Schröder had what seemed a reasonable game plan. After pushing through his Agenda 2010 reforms, he hoped to regain popularity on the back of economic revival. Yet last week, the economics ministry cut its growth forecast for 2004 from 2.25% to a meagre 1.5%. This week's figures also showed a rise in unemployment, which is around 4.4m or over 10% of the workforce.

Mr Schröder's decision to step down as chairman of the ruling Social Democrats (SPD) and hand over to Franz Müntefering has also failed to improve his party's poll ratings. The SPD hovers below 30%, compared with nearly 50% for the opposition Christian Democrats. This bodes ill for the party in the 12 local and regional elections this year, and for the European elections on June 13th, the results of which could be disastrous for the SPD.

Germany's fiscal situation is also deteriorating. The federal coffers are short by €18 billion ($22 billion) this year and €15 billion next, compared with budget projections. And these deficits come on top of already planned shortfalls of €29 billion in 2004 and €21 billion in 2005. If no action is taken, the government will have to borrow even more, keeping Germany's budget deficit well above the stability-pact ceiling of 3% of GDP again next year (see chart).

What to do next was the main issue at the secret meeting. Mr Schröder reportedly argued that simply cutting the budget will merely fuel the anxieties of German consumers, and so weaken the economy further. Instead, he wants to make a "strategic reply", which could include spending some real money on his so-called "innovation offensive". To finance this, the government could sell more assets, such as stakes in companies and parts of the country's gold reserves—and borrow more, like George Bush in America. Mr Eichel prefers to stick to budgetary rigour, however.

In contemplating a Keynesian shift, Mr Schröder may be taking a lead from Peter Bofinger, an economist at Würzburg University. The government has focused too much on structural reform and not enough on sustaining demand, argues Mr Bofinger, who was recently appointed to the German council of economic experts. Yet most other economists make a case that any shift would be harmful. The country's problem is not growth itself, but low growth potential, says Hans-Werner Sinn, president of IFO, an economic

think-tank.

Whatever the effects of a change in Germany's fiscal policy, the political fallout is predictable. The stability pact would surely wither if its chief sponsor defied it for a fourth year running. Ironically, Nicolas Sarkozy, finance minister of the other big pact-breaker, France, this week promised to do more to cut spending to get back below the ceiling. At home, too, Keynesianism might come with costs. It would surely seal the fate of Mr Eichel. His departure would trigger a cabinet reshuffle, which could spark renewed conflict within the ruling coalition. On top of this, being fiscal conservatives, Germans dislike public debt almost as much as they do wars. Going Keynesian may tempt Mr Schröder, but it might not pay off.

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Charlemagne

Make my day

May 6th 2004
From The Economist print edition

Why threats to chuck Britain out of the European Union ring hollow

“OUR decline in relation to our European partners has been so marked that today we are not only no longer a world power, but we are not in the first rank even as a European one.” So wrote Sir Nicholas Henderson, Britain's ambassador to France, in a confidential farewell telegram 25 years ago, which was leaked to *The Economist* and published on June 2nd 1979, just one month after Margaret Thatcher's arrival in Downing Street. His dispatch was accompanied by a table showing that, in 1977, Britain's GDP per head was 41% lower than France's and 46% lower than (West) Germany's, having been well ahead of both in 1954. Sir Nicholas argued that Britain's failure to participate fully in Europe's integration had played a big part in this relative decline. Rather like the people of the eight central European countries that joined the European Union last week, the British in the 1970s felt that only by signing up to the European project could they hope to climb back into the first division.

Today, the mood is very different. British officials proudly cite the latest OECD figures showing that Britain now has higher GDP per head than France, Germany and Italy—whether the calculations are made on current exchange rates or by purchasing-power parity (PPP). (The 2002 PPP figures were: Britain $28,000, France $27,200, Germany $25,900 and Italy $25,600.) And, as Britain is continuing to grow faster than the euro area, the gap can only be widening. Indeed, Oxford Economic Forecasting, a consultancy, projects that, on current economic and demographic trends, the British economy will by 2030 be the biggest in Europe, edging out a more populous Germany. A lot can change in 25 years, as events since Sir Nicholas's gloomy dispatch demonstrate. But that such calculations are even being made illustrates the new spring in Britain's step.

These economic realities should also be remembered when considering the latest fashionable notion in Brussels: the idea that Britain might be chucked out of the EU if it refuses to ratify the new constitution that the 25 members are likely to agree next month. Tony Blair has promised a referendum on the constitution, and all the polls suggest that British voters will reject it. That, in theory, could mean that the whole document is stillborn, since it needs to be ratified by every EU member. So Jacques Chirac, France's president, has begun to exert what he calls a little “friendly pressure”, by suggesting that any country that rejects the constitution would have to leave the EU altogether. Long experience has taught Mr Blair that nothing is more menacing than a “friendly” gesture from Mr Chirac. But the French president is not alone in suggesting that Britain might have to go if it votes no. Romano Prodi, head of the European Commission, has made broad hints in the same vein. So has Chris Patten, a British commissioner.

Yet all the legal, political and economic realities point in the opposite direction. There is no legal provision for throwing out a country that refuses to ratify a constitutional treaty. Most people agree, however, that if the political will to take such a drastic course of action existed, a way might be found. If Britain refused to leave voluntarily, for instance, the others could resign *en bloc* from today's EU and start a new organisation. It would be extremely messy, but probably doable. However, would the other members really want to take such a drastic step? For one thing, it seems likely that the British electorate may not be alone in rejecting the constitution. Could Germany countenance throwing Poland out if it said no, only a year or two after hailing the historic achievement of welcoming the Poles in? Getting rid of the Netherlands, another possible naysayer, and also one of the six founder members, would be even more unthinkable.

A solo rejectionist

Things would be more interesting if Britain were the only country to say no to the constitution. For the

French, as for federalists everywhere, an EU without Britain might then look rather appealing. The chances of rallying opposition to federalism would diminish drastically, making it easier to further such goals as tax harmonisation, EU-wide social legislation and the preservation of farm subsidies. But, for precisely the same reasons, many other EU countries would be uneasy over a British departure. The new entrants, in particular, have no desire to be trapped in an economically sclerotic, over-regulated, tax-harmonised EU whose policies are largely dictated in Paris and Berlin.

Even in France and Germany, many might blench at the symbolism and consequences of a British exit. The enlargement that was completed last week means that the EU has just admitted a lot of relatively poor countries with newly established democracies. Ordinary French and German citizens might see it as a little ominous if the EU threw out Britain shortly after admitting Slovakia and Lithuania—especially when they know that Turkey is waiting eagerly in the wings.

Those worried about a threat to Britain's EU membership emanating from Paris or Brussels may be looking in the wrong direction. If Britain ended up leaving the European Union, the decisive move would probably come from the United Kingdom itself. As soon as Britain says no to the constitution, powerful forces in the press and politics seem sure to start arguing for a new semi-detached relationship with the EU, involving free trade (the “common market” they thought they were joining in 1973) and little else. Disciples of Baroness Thatcher—who by 1988 was already complaining, in her Bruges speech, that a reviving Britain was being hobbled by regulation from Brussels—would lead the charge for the exit. The most recent EU poll shows that only 28% of Britons think that membership of the Union is a “good thing”. In the days of Sir Nicholas's valedictory dispatch, when British decline seemed inexorable, the idea of deliberately distancing Britain from a booming continental Europe would have seemed absurd. It seems less ridiculous now.

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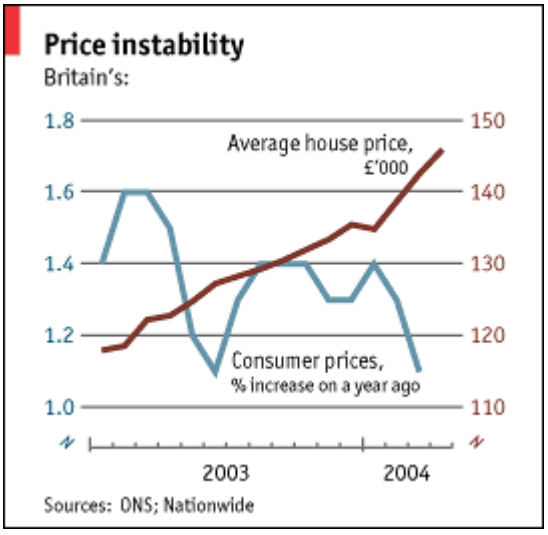
Interest rates

The big bad bubble

May 6th 2004
From The Economist print edition

It's the government, not the Bank, that's the trouble



HOUSE prices have replaced the weather as Britain's favourite conversational standby, reckons Andrew Smithers, an independent financial analyst. Unlike Britain's temperate and unpredictable climate, however, the nation's housing market is reliably torrid. Another £9.3 billion ($16.7 billion) was borrowed against houses in March, taking the amount of outstanding mortgage debt past £800 billion. House prices were 18.9% higher in April than a year ago, according to Nationwide, a big lender. Such heavy borrowing makes high prices possible (see chart), even as high prices make heavy borrowing necessary.

With so much money at stake, every homeowner, house-hunter and buy-to-letter in Britain is an amateur meteorologist, watching for storms on the horizon. It falls to the Bank of England to regulate the weather and distribute the seasons, through its control of the cost of borrowing. On Thursday May 6th, it raised interest rates a modest quarter point to 4.25%.

Two similar rate rises, in November and February, failed to temper the rise in house prices or slow the growth of debt. But the Bank is reluctant to go further or faster. While the rest of the country worries about house prices, the Bank is required by law to focus on the prices of goods and services, not assets. Consumer prices rose just 1.1% in March, according to the consumer price index (CPI), well under the 2% target laid down by Gordon Brown, the chancellor of the exchequer. Inflation could even fall temporarily below 1% in the coming months, in which case the Bank would have to account for the aberration in an open letter to Mr Brown.

This is not the letter everyone else wants to read, however. Few care why consumer prices have slipped temporarily from the modest upward path the Bank foresaw in its last inflation forecast. Everyone instead wants to know how house prices got to where they are, whether they are going to stay there, and what will happen if they don't. Some are even starting to wonder whether the Bank's justly celebrated inflation-targeting regime, thought by many to be “state of the art”, may have slipped a little behind the curve.

To an Englishman, his home is his castle. To less confident observers, it is a castle in the air. The International Monetary Fund reckons real house prices are overvalued by up to 35%. Such valuable houses provide collateral for borrowing, and borrowing, in turn, provides strong support to the economy. In the last quarter of 2003, for example, Britons took out more than £16 billion of mortgage debt, secured against houses, which they then pumped into the broader economy.

If home prices were to stall, household borrowing may slow, or even stop. Dramatic turnarounds in saving are not without precedent. Between 1989 and 1992, for example, the household savings ratio went from 4.9% to 11.9%, after house prices crashed. This massive withdrawal of purchasing power helped turn a heady boom into a punishing bust.

Should the Bank have acted earlier to stop the bubble inflating? With hindsight, yes. A rate rise early last year, before house prices lost their moorings, might have delivered steadier growth today, with less debt and less risk of a crash. But early last year, inflation was dangerously low, and the world, including *The Economist*, was scared stiff of deflation.

Some people think that the Bank should be raising rates further and faster now. The problem, they argue, lies with the inflation target, which commits the Bank to fighting the dragons of the 1970s and 1980s, not those of today. The law requires it to target inflation, and nothing but inflation, so it could not respond to asset-price bubbles even if it wanted to.

But the Bank's remit is not as tight as many, including perhaps the chancellor himself, assume. Mr Brown has given the Bank a number—2%—but not a date. Normally, the Bank looks two years ahead—the approximate lag between a rate decision and its full effect on inflation. But as Mervyn King, the Bank's governor, has pointed out, the Bank could, if necessary, adopt a longer horizon: it could, for instance, raise rates to head off a bubble, even if this pushed inflation below target in the short term, if it were doing so in order to deal with a bubble that might threaten price stability in the long term.

It could, but it didn't, and Britain has a bubble. If it bursts, monetary policy is likely to be powerless to revive the economy. At that point, a well-prepared government would reach for its fiscal policy. When America's stockmarket bubble burst, a dramatic swing in its public finances—from a surplus of $113 billion in 2000 to a deficit of over $600 billion last year—helped its economy pull through. Unfortunately, Mr Brown does not have that sort of flexibility. He is already slated to borrow $35 billion this year, despite strengthening growth. If house prices deflate the economy, Mr Brown will not have the muscle to pump it up again.

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About sponsorship

Universities

New angles on degrees

May 6th 2004
From The Economist print edition

British universities are expanding fast abroad. But real competition is looming

Nottingham nous hopes to meet Chinese profits

Get article background

DEFEATIST dons and diffident vice-chancellors are still tiresome fixtures of the British university scene. But for those with enough oomph to market themselves to foreigners, business is booming. Figures released last week by the Sutton Trust, an educational charity, show that there are 165,000 overseas students in Britain—meaning those from outside the European Union (EU)—and their number is rising sharply, by half since 1996, and by nearly a fifth in the last year alone. That now brings in about £1 billion ($1.8 billion) a year in fee income.

But behind those figures is a less familiar and potentially even better business—teaching foreigners abroad. These range from glorified distance learning (simply teaching over the internet from Britain), to franchising courses to foreign partners, and sending dons to teach abroad, either while attached to a host university, or ultimately in a separate entity. Nottingham University, the leader in this field, has a campus in Malaysia and is about to open another one in China.

The Higher Education Statistics Agency reckons that there are about 70,000 foreign students on courses run by British universities overseas. But Neil Kemp, a specialist at the British Council, which promotes British culture abroad, says the real figure may be as high as 200,000.

British universities that take this seriously have found it rewarding. Foreign students pay realistic fees (in contrast to the lossmaking business of teaching home students). Teaching them abroad may be cheaper. The profits are good. “It means we can pay our staff better and provide better facilities for our home students, better library stock, and our buildings are better maintained,” says Michael Driscoll, vice-chancellor of Middlesex University. Courses abroad also help recruit students into British-based study later. The result, says Roger King, a British-based expert on the global higher education business, can be more than 10% extra turnover for a university that runs its offshore business well.

Easy money can mean murky business. In a report on China, the Quality Assurance Agency (QAA), the higher education standards watchdog, says that a number of British institutions had claimed to have “no collaborative arrangements with Chinese partners.” But on visiting Chinese universities, the QAA found that “some of these did, in fact, have established partnership links”. This, the report notes drily, “caused some confusion”.

Keeping tabs on deals done in distant countries by hard-up or inexperienced universities can be tricky. The QAA does not inspect foreign operations systematically. But it makes spot checks, sometimes with surprising results. Last month, for example, it criticised Bristol, one of the country's best-known

universities, for an amateurishly administered postgraduate course in music therapy run jointly with a charity in Italy.

But what of the host countries? According to Mr King they increasingly want the foreigners to develop a physical presence, rather than just selling courses. It also means stressing quality. Malaysia, for example, has just announced that only foreign institutions ranked highly at home—in the top 60, in the case of Britain—may set up shop there. Australia has just set up its equivalent of the QAA to try to stiffen offshore standards.

The big question now, though, is how Britain will fare against the competition. Australian and American universities, particularly private ones, are pushing their courses in the developing world hard. They teach in English too, and are particularly strong in the most popular subjects such as business and computing. British universities have an advantage for the time being, because their three-year courses look better value than the four-year courses offered by most competitors. But that could easily change. As the market becomes more quality-conscious and more competitive, some of the weaker British universities are likely to find the pickings as thin abroad as they are at home.

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Iraq abuse allegations

The not-so-good guys

May 6th 2004
From The Economist print edition

Iraqis take the British army to court

EPA

HOWEVER uncomfortable many Britons have felt about the war in Iraq, they have at least been secure in the knowledge that their army has been doing a fine job. Compared with the area under American control, the area under British control has been relatively calm. By common consent, this is not just because the Shias who dominate that part of the country were keener to get rid of Saddam Hussein than the Sunnis who dominate the American-controlled part, but also because British soldiers know how to keep the peace without alienating locals.

This happy assumption has been undermined this week, in part by photographs published in the *Daily Mirror*, a tabloid newspaper that has been waging a fierce editorial battle against the war. Two days after photographs of American soldiers abusing Iraqi prisoners were published, the *Daily Mirror* published pictures that purported to show soldiers from the Queen's Lancashire Regiment urinating on and kicking Iraqi prisoners.

Doubts about their authenticity swiftly emerged. In contrast to the American photographs, the captors were unidentified. In contrast to the fuzzy snaps of the Americans, the pictures were clear and shot with film stock of the sort used by professionals. Details were wrong: the rifle and truck appeared to be of a type that have not been used in Iraq; soldiers in Iraq wear berets or hard hats, not the floppy sort shown in the picture; the victim looked too well-dressed for somebody being tortured.

The *Daily Mirror* has handed over 20 photographs to the Royal Military Police. The government is saying little more than that it is determined to uncover the truth. But it seems quietly confident that the pictures will turn out to be fakes and one of its principal tormentors in the press will turn out to have skewered itself.

The photographs therefore seem less of a danger than the claims by Iraqi civilians against the Ministry of Defence (MoD). The Royal Military Police has looked into 21 cases of deaths or wounding in British custody, and reckons that six need further investigation. Another 12 cases are pending. It has already paid compensation—£500-1,000 ($897-1,794) per life, according to lawyers for the victims' families—to some but denies legal responsibility.

Some Iraqi families, and the British lawyers working for them, want to bring cases against the MoD in English courts under European human rights legislation. The MoD argues that Iraq is not a European country, so European law does not apply. The Iraqis' lawyers argue that southern Iraq is controlled by the British and precedent suggests that control, not sovereignty, determines whether English law rules. They are seeking judicial review of the matter; and, if they do not get their way in the English courts, they could take their case to the European Court.

All this is ominous for the government. Not only has Iraq hijacked the news agenda for yet another week, but stories of Iraqi civilians dying at British hands threaten to linger in the courts.

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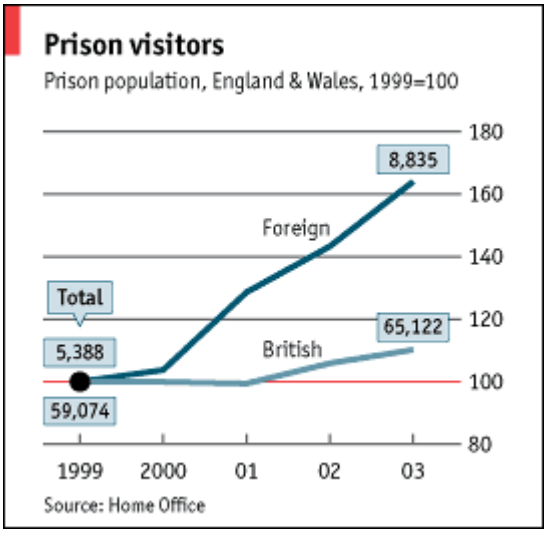
Foreign prisoners

Inside over here

May 6th 2004 | WORMWOOD SCRUBS
From The Economist print edition

Hard-working immigrants transform the prison system



EVERY negative prejudice about immigrants can be confirmed by a visit to Wormwood Scrubs. The 500 foreign men who inhabit this Victorian edifice in west London are criminals and a drain on public funds; moreover, they are usually prepared to work for a pittance. Yet they also display the classic virtues of new arrivals: diligence, good behaviour and strong family bonds.

Men tend to end up in Wormwood Scrubs after being picked up at Heathrow airport with bags of white powder in their luggage. Thanks to inflexible sentencing codes, they generally do four to 14 years—some of the longest time in the penal system. They are as global as the drug trade itself, with 73 nationalities represented among 1,200 prisoners.

In this criminal United Nations, foreigners have an unusually tricky time. Many find it difficult to communicate, although the prison has improved matters by organising Spanish-language meetings and putting countrymen together in cells. Keeping in touch with families is complicated and expensive: the recent move to a PIN phone system, which is supposedly more secure, has had the effect of reducing competition and increasing the price of international phone calls by as much as 20-fold.

Foreign prisoners have responded to these difficulties in typical immigrant fashion—by clustering together, keeping their noses clean and working hard. Wormwood Scrubs is a good place to do so. It allocates an unusually large proportion of the budget to wages, and runs small production lines for airline headsets and aluminium windows. The best jobs return between £25 ($45) and £40 per week, depending on a prisoner's place on the ladder of privilege (as in all prisons, inmates are paid more for the same job if they behave themselves).

Such a sum might keep a British prisoner in cigarettes, but it is serious money for a third-worlder. Drug couriers tend to come from needy families—that is why they agree to carry mysterious packages into Britain—and if the breadwinner is in prison, the need must be met from there. So a steady stream of remittances flows from Wormwood Scrubs to poor countries. The same is true even of stingy establishments such as Holloway, a women's prison in London, where wages can be as low as £7 per week.

Like other huddled masses, Britain's foreign prisoners yearn to be free—even if, in their case, freedom is usually followed by immediate deportation. In the meantime, they reckon they might as well make the best of it.

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Speed cameras

Fast and loose

May 6th 2004
From The Economist print edition

Speed kills. So why are speed cameras so controversial?

DRIVING fast is dangerous, so the government wants to stop it. This week Kim Howells, the transport minister, suggested a speed limit in built-up urban areas of 20mph. That would save lives, but it will infuriate the people who think driving fast is not dangerous when they are doing it. The most militant people in this lobby claim to have disabled 750 of the country's 6,000-odd speed cameras, using paint, angle-grinders and firebombs.

What makes people so cross? One is that the growth of speed cameras has caught a lot of motorists driving too fast: the number of penalties issued thanks to cameras rose 40% in a year to nearly 1.5m, according to newly released statistics for 2002. That's good: drivers with penalty points on their licence drive more carefully. The mere presence of cameras slows traffic: deaths and injuries drop on average by 35% where they're installed.

But against that is the belief that speeding is harmless fun, a tug-of-wits between drivers and the police. To that mindset, cameras are unfair. Even those who shun vandalism see gadgets such as radar detectors and camera-baffling reflective film on licence plates as part of the game.

Cameras, critics maintain, are about raising money not saving lives: speeding, they say, is only a minor cause of accidents. Such critics like to cite a study by the Transport Research Laboratory (TRL), a state-financed think-tank, which, they say, showed that speed was to blame in only 7% of accidents, not the one-third claimed by the safety lobby.

All that has politicised road safety to a surprising degree. The opposition Conservatives have flirted with an explicitly anti-camera policy. The Police Federation, which will debate speed cameras at its conference this month, worries that they erode public confidence.

Yet critics misuse the statistics. Speed cameras raise little in fines—only £73m last year. Speed is indeed rarely the sole cause of accidents, but it compounds every other cause, from bad road conditions to silly driving. The much-cited study by the TRL has been wrenched out of context: it examined how the police report accidents; it did not draw conclusions about their cause. Cameras are sited sensibly: on roads that have seen four deaths or serious injuries in the past three years. The relationship between speed and the incidence and seriousness of accidents is iron-clad, according to countless studies both in Britain and abroad. That reflects simple physics: a lump of metal going fast will hurt you more than one going slowly.

There are plans to publish data for each camera, showing accident rates before and after. That may shut up some of the critics. But not those who believe that while others should keep the speed limit, they are skilful enough to break it safely.

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Public-sector information technology

The trouble with EDS

May 6th 2004
From The Economist print edition

How the government fell out with its main IT supplier

"NO PUBLIC sector can be comfortable having one dominant supplier," Sir Peter Gershon told a House of Commons committee last winter. Sir Peter, who oversees government procurement, should be a happier man now: the supplier he had in mind was Electronic Data Systems (EDS), an American company which a year ago held half the government IT contracts in Britain. Today it is busy handing over the biggest of them, with the Inland Revenue, to a successor.

EDS has had a grim year here. As any supplier to a big supermarket could have told it, having one dominant customer can also be uncomfortable. Two-thirds of its British business was public-sector, and the Revenue contract was one-fifth of that. Suddenly last spring, nine years into a ten-year, £3 billion-odd contract, the relationship went sour. A new tax credit was to come into force; EDS had set up the system to handle it; the taxmen drastically shortened the running-in period; and the result was chaos. In December, with a new ten-year contract up for grabs, the Revenue switched to Paris-based Capgemini.

Meanwhile, an unhappy saga at the Child Support Agency was dragging on. The EDS system to handle maintenance payments there was already long overdue when it came into operation in early 2003. It isn't working properly yet, and the government has been withholding about 15% of the monthly fee. EDS may not in fact deserve all the ministerial chuntering and media barbs that it has had: family discord and divorce seldom lead to the reliable information that systems chew on. But bad luck on EDS: fairly or unfairly, this was another bad mark against its name.

Little wonder, then, that when the National Health Service last summer was considering suppliers for the revolution it plans in its IT over the next few years, EDS did not even make the shortlists. Worse, in March the NHS cancelled a contract with EDS for an e-mail and directory system that was supposed to link all its doctors and employees but to which few of them had yet switched.

Is there something about EDS that has made so much go wrong? Not according to people in the industry. EDS has had so many failures with government largely because it had so many contracts. Government IT is a notoriously difficult business.

EDS has also had successes, which have been less visible than its failures. Despite the recent break-up, it had had a fairly happy relationship with the Inland Revenue for nine years—indeed it relied too much on that to win the new contract, admits Sheelagh Whittaker, who heads the company's public-sector business in Britain. And it is still managing other contracts—ones that are not much written about, like the almost trouble-free installation of London Underground's Oyster electronic card-payment system, or the nationwide roll-out of the Post Office's new simplified bank account.

Nor does EDS's ouster as the government's main IT partner guarantee that the long history of public-sector IT trouble ends now. It has involved many reputable companies and many government services: passports, the probation service, asylum-seekers, magistrates courts, criminal records, bits of the NHS, and more. The public sector has learned lessons, say industry sources, above all the need for firm leadership, on both sides, in handling big contracts. But Capgemini and the Inland Revenue have still to bed down together. And the NHS's huge IT programme—£6 billion of it, two big national contracts and five regional ones, all to be seamlessly integrated—will test the public sector's new sophistication to the full.

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Philanthropy

Charitable lot, the rich

May 6th 2004 | EDINBURGH
From The Economist print edition

Generosity seems to be on the rise

TOM HUNTER, a Scottish businessman, announced last month that he will give £100m—a fifth of his wealth—to charity. Donald Gordon, a property tycoon, said last year he was giving £10m to the Royal Opera House and £10m to the Wales Millennium Centre. City hedge fund managers last week stumped up £10m at a children's charity evening, a British record for a charity bash. Is lavish philanthropy making a comeback in Britain?

Charities certainly hope so. The British are reckoned to have donated £7.3 billion in 2002, 0.8% of GDP. It sounds impressive, but it is stingy in comparison with Americans, who are reckoned to have given away 1.8% of GDP. Raising British giving to American levels would result in an extra £9.5 billion going to good causes.

Charitable donations as a whole took a hit when the National Lottery started in 1994. Surveys suggest that pre-lottery average donations by individuals fell from £12 a year to less than £10 in 1997, recovering to just under £13 a year in 2002. At the same time, the number of households giving to charity has dropped from 70% in 1995 to less than 67%. That's reckoned to be because people seem less inclined to respond to tins being rattled on streets or doorsteps, perhaps because fraud stories have made people warier of such appeals.

Charities and the government are trying hard to make the wealthy cough up more. Tax changes made since 2000 have brought capital gains and income-tax relief on donations closer to the American model. The effect so far has been modest. Income growth from gift aid relief, for example, which supplanted deeds of covenant with a more generous scheme for donors and recipients, slowed in the first year but seems to be picking up again. Gifts from capital rather than income—such as the £5m of shares given to English National Opera by Vernon Ellis, international chairman of the Accenture consultancy—are also more common now.

The really rich as a group are giving bigger bucks too. The *Sunday Times* rich list, for example, found that Britain's top 30 donors (giving more than £400,000 a year) gave £299m in 2003, up from £171m in 2002. Giving to the arts is particularly strong. According to Arts & Business, a networking group, individuals' gifts totalled £256m in 2003, up from £236m in 2002. More giving from rich people, says Lindsay Boswell, chief executive of the Institute of Fundraising, may be simply a sign that the rich are getting more comfortable about their wealth becoming publicly known.

While London's charitable ball circuit is nowhere near as lavish or ostentatious as New York's, there are other signs of British fund-raising becoming Americanised. The “give or get out” culture, where people have to make big donations to get and stay on charity boards, is appearing.

Also new on the British scene are charities like the Beacon Fellowship and New Philanthropy Capital, which specialise in helping the wealthy give their money away. Les Hems, research director of the Institute for Philanthropy, another new charity, says donors should be allowed (as in America) to hand over capital to a charity while still enjoying the income and tax relief until death, when the charity gets the whole lot. So far, the Treasury has ungenerously said no.

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Arts funding

Sense and sensibility

May 6th 2004
From The Economist print edition

Culture minister in arts advocacy shock

Reuters

Stop twisting my agenda

TESSA JOWELL, the culture secretary, made an extraordinary suggestion in a pamphlet published on May 4th. High art, or, as Ms Jowell put it, “complex culture”, was worthwhile purely because it enriched people's lives. In truth, she wrote, “politicians have enough reasons to support culture on its own merits to stop apologising for it by speaking of it in terms of other agendas.”

The “other agendas” so breezily dismissed by the minister have, for the past few years, formed the main justification for giving public money to the arts. They include art's supposed role in promoting social inclusion, as well as its capacity to reduce unemployment and cut crime. Such extravagant claims date from the early days of the Labour administration, when Chris Smith, Ms Jowell's predecessor, cooked them up in order to explain why a Labour government should spend money on snooty things like opera.

Creative folk have put up with this guff for two reasons. First, as mostly leftish types, they are more willing to think of themselves as social engineers than as drivers of the economy (which is how the last Conservative government saw them). Second, they have noticed that money flows as freely as rhetoric. Since 1998, funding for Arts Council England has increased from £189m to £411m. When that sort of cash is available, cultural impresarios are happy to play along with some of the government's odder plans.

But the idea that arts funding can deliver measurable benefits was always daft: it's hard enough to measure the benefits society derives from education. Theatre groups can bring Shakespeare to deprived housing estates; opera houses can lure the young and penniless with cheap seats. But the evidence to prove that such initiatives can cut crime or get people off the dole is lacking. And in any case, most purveyors of high culture have (rightly) fed as much money as they can to core activities, even while talking up their outreach work. They know, after all, that they must please well-heeled punters in order to sell tickets and secure donations.

As a result, the various arguments that have been made for art as a solution to society's problems have come to resemble a soufflé of puffed-up claims. By cutting off some of the hot air, Ms Jowell has done the arts world a service.

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Bagehot

Mimicking Margaret

May 6th 2004
From The Economist print edition

Mr Blair is being told that he needs a radical manifesto, just like Margaret Thatcher's. He doesn't

Get article background

FOR all the fever of speculation in Westminster last week, how Tony Blair intends to use the time remaining to him as prime minister is more interesting than ill-informed gossip about his retirement plans. There is always the possibility that Mr Blair might one day decide to chuck it in for personal or family reasons, but those who work most closely with him insist that what dominates his thoughts is not the timing of his exit, but the problem of renewal. In particular, how a government that will have been in office for eight years at the time of the next election can persuade voters that it has not run out of steam.

The 25th anniversary this week of Margaret Thatcher's election as prime minister has provided Labour propagandists with the opportunity to portray the current Conservative leader, Michael Howard, as a Thatcherite warhorse answering a bugle call from a bygone era. Aware of the danger, the Tory celebrations were carefully muted. But if Lady Thatcher is a bit of an embarrassment for today's Tories, New Labour holds her in awe.

When Mr Blair casts himself in the role of strong leader, as he often does these days, it is Mrs Thatcher (as she then was) who more often than not provides the script. His silly soundbite at last year's party conference about having no reverse gear was an inelegant parody of “the lady's not for turning” speech Mrs Thatcher made at a similarly sticky point in her career. So it's not surprising that while publicly scorning her legacy, the Blairites are now seeking inspiration from the way in which Mrs Thatcher, after a year of troubles, revived her government, gave it new impetus and won a third term and a large majority.

The key to this, Blairites have concluded, was the 1987 Conservative manifesto. After the content-free manifesto of 1983, it set out to prove that the government was full of radical ideas. Even more important, it provided a convincing narrative—a word beloved in New Labour circles—of the preceding eight years. It reinterpreted a messy reality as a meticulously phased strategy for Britain's economic and social rehabilitation, and made the phase to come seem not only right but also inevitable.

How much of this could or should Mr Blair attempt to replicate? According to a triumvirate of departed

Blairite ministers—Peter Mandelson, Stephen Byers and, most recently, a former health secretary, Alan Milburn—it is the only way that Mr Blair can restore his battered credibility in the country and his equally battered authority within the Labour Party. Although the three former ministers are unlikely to play any formal role in manifesto planning, they are frequent visitors to Downing Street and remain closer to Mr Blair's ear than most of the cabinet. Mr Blair may not have complete confidence in their judgment, but they are political soulmates, just as Nicholas Ridley and Cecil Parkinson were for Mrs Thatcher.

Constructing a decent-sounding narrative of Labour's years in office is not difficult—Mr Blair does it most days of the week. But while it was plausible for the Tories to claim that Britain in 1987 was unrecognisable from the Britain of the late 1970s, when inflation had reached nearly 30% and trade union leaders were thought to be the most powerful men in the land, Labour finds itself on less firm ground. Although it has a more than respectable story to tell about the economy, the second chapter of its narrative is still distinctly shaky. Despite the money that has been poured into health care and education during the past five years, voters remain resolutely sceptical about the improvements of which the government boasts.

Short of a narrative, the men who would replicate the 1987 manifesto are condemned to look for extra infusions of radicalism and boldness. That does not sound too hard. A quick search of the party website shows that such words are close to New Labour's heart: “At our best when at our boldest” (T. Blair, 2002); “We now need bold reform enabling every child to reach their potential” (T. Blair, 2003); “The lesson the Labour Party...should not learn is to shy away from radical reform” (T. Blair, 2004); “a bold policy of Socialist reconstruction” (whoops, sorry, 1935 Labour manifesto). It is rarely clear what boldness and radicalism entail, but never mind: they are, by definition, good, because Mr Blair has identified the “forces of conservatism” as the enemy.

More radical than thou

But the rhetoric sits oddly with the reality of life under one of the less radical governments of the past century. Labour's boldest policies have been its least successful. The consequences of its constitutional radicalism, for instance, are a pork-barrel parliament in Edinburgh that not even the Scots like, and a half-reformed House of Lords left in limbo because the government has realised that if it finished the job it would have created a second chamber with political clout. As for the public-service reforms whose radicalism the government trumpets, they may look that way to a Labour policy wonk or an NHS worker, but fiddling around at the margins with the degree of self-management awarded to hospitals does not match up to establishing the NHS or privatising the nationalised industries.

It's a peculiarity of nearly all politicians, whether of the right or left, that they think they must appear radical. Mrs Thatcher loved her 1987 manifesto for its radicalism—“the best ever produced by the Conservative Party”, she said. But while it may or may not have helped re-elect her, it certainly hastened her end when the wheels started coming off some of its madder policies, such as the poll tax.

Mr Blair should realise that his strength is that he is most unlike Mrs Thatcher. He has not achieved as much as she did, but then he is not hated as much, either. Iraq and terrorism apart, he is a comforting politician for relatively comfortable times. For his moderately successful, rather dull, always fearful government, a radical manifesto would be like an ill-fitting suit.

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Nuclear power

Out of Chernobyl's shadow

May 6th 2004
From The Economist print edition

AP

Europe's expansion eastward may boost the nuclear power industry

Get article background

IT IS now 18 years since an accident at the Chernobyl nuclear power plant in the Ukraine spewed out radiation, which was then carried by the prevailing wind across Europe. Understandably, the worst-ever accident dealt a serious blow to Europe's nuclear industry. Italy shut down its reactors. Germany and Belgium decided to build no new plants. Only France remained unapologetically pro-nuclear.

Now, a fresh dose of nuclear energy has entered Europe from the east, carried by the prevailing political wind. Many of the countries that joined the European Union (EU) this month rely heavily on nuclear power. This is forcing the EU to confront some extremely tricky choices about the future role of nuclear power—choices that are now also being explored, if less visibly, further afield, including in America.

The new EU members mostly used nuclear technology of Soviet design—which, with Chernobyl in mind, greatly worried existing EU members. Lithuania had to agree to shut down its two nuclear reactors as part of its accession deal. Bulgaria, which hopes to join the Union later this decade, faces a similar ultimatum. When the Czech Republic sought to build a new Soviet reactor (albeit of a non-Chernobyl design) at Temelin, Austrian politicians threatened to block its EU membership, although they eventually backed down.

So it would not have been surprising if this month's EU accessions had marked another big step toward the closure of the nuclear industry in Europe. Actually, the opposite may be true.

Ironically, one reason for this is precisely those safety concerns bedevilling eastern reactors. Achieving western safety standards at the 18 nuclear plants that have just been added to the EU will be a bonanza for western consultants, making them a forceful lobby for keeping plants alive. Upgrading existing Soviet reactors is nice work for engineering firms. Aker Kvaerner, a big Norwegian firm, has just announced a joint venture targeting accession countries with Britain's Spescom, which specialises in the computer software needed to run nuclear plants. In some cases, new western plants may be built, initially to replace Soviet ones, but perhaps later to replace filthy coal-power generators. The winners will be nuclear builders such as Britain's BNFL/Westinghouse and France's Areva (see article).

Loving nuclear

Despite Chernobyl, most of the new EU members are not hostile to nuclear power. Vladimir Spidla, the Czech prime minister, recently visited Finland, which last December approved plans to build a new nuclear reactor. “Finland may be the only country now,” gushed Mr Spidla, “but soon almost all will join it.” With such voices now casting votes in Brussels, the EU's anti-nuclear stance may soften.

That important new Finnish reactor highlights a third factor that could boost nuclear power within the EU: global warming. Though the Kyoto treaty on climate change is in trouble, the EU has made its targets legally binding. Green activists hope that renewable energy and more efficient energy-use will achieve those targets, but not everyone is convinced. Shutting nuclear power stations could easily increase the use of gas and coal. Loyola de Palacio, the European Commission's top energy official, says that the EU can shut down lots of nuclear plants quickly, or it can meet the Kyoto targets—but not both.

The new EU members must now take greenhouse gases seriously. None of them will want to become dependent on gas imports from Russia. So they may find nuclear power increasingly attractive.

But if environmental arguments may increasingly work in nuclear's favour, the main obstacle is likely to be cost—though, here, too, things are not as clear-cut as they once were, and may become even less so if oil and gas prices continue to rise. Up to 75% of the lifetime costs (excluding decommissioning) of a nuclear plant are incurred upfront, compared with around 25% for a gas-fired plant. The latest nuclear plants are reckoned to cost $1,500-2,000 per kW of installed capacity. A new coal plant costs some $1,000 per kW and, at current prices, a gas plant even less.

Finding investors willing to finance a new nuclear plant is formidably hard. The countries keenest on nuclear power—China, France, India and, less so nowadays, Japan—have been ones without genuinely competitive power markets. On May 4th, for example, China announced a $600m deal to help Pakistan build its second nuclear power plant. In such places, central planners and power monopolies have triumphed over market economics.

More than half of the subsidies (in real terms) ever lavished on energy by OECD governments have gone to the nuclear industry. Energy liberalisation has exposed the scope and scale, and sometimes illegality, of these subsidies. The European Commission has ordered Electricité de France, Europe's biggest nuclear operator, to repay some illegal subsidy—an order that EdF is fighting. The commission is also challenging the British government's bail-out of British Energy, an ailing nuclear operator. Meanwhile, in America recent attempts to revive nuclear power—George Bush repeated his support for it on May 3rd—via “production credits” and other handouts have (so far) fallen flat in Congress.

Perhaps new legal justifications for subsidy will be found. Some boosters argue that nuclear power deserves support for enhancing “energy security”—though creating lots of new fissile material brings its own security risks. Others pin their hopes on carbon taxes or other measures linked to climate change, although various studies have shown that such a tax would have to be far larger than currently envisaged to make nuclear plants economically viable.

Perhaps the best hope is to come up with cheaper designs for nuclear plants. Lately, nuclear builders have been making big promises about lowering costs—though these have mostly been greeted with scepticism. Which brings us back, yet again, to Finland.

“A year ago, I'd have said nuclear is not possible in a liberalised market because of financing. Now there's Finland!” says Jean-Marie Chevalier of CERA, an energy consultancy. The Finns have come up with a clever way to build a new nuclear plant. A coalition of some 60 Finnish companies, including heavy power users in the paper and pulp industry, have banded together to form a group called TVO. They agreed to buy the power produced by the 1,600MW plant—thus reducing one important aspect of project risk. The TVO partners are also stumping up around 25% of the €3 billion ($3.6 billion) cost by buying shares and underwriting subordinated loans. The rest will be financed by commercial debt. TVO says that Areva and Siemens, which will build the plant, have accepted demanding targets for both costs and deadlines—two areas where many nuclear projects have gone horribly wrong.

Will they be seeking government handouts? Just consider the outraged response from a TVO spokeswoman: “Yes, TVO is entirely a private sector venture! TVO does not receive money from the government.” Is anyone in France listening?

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State aid in Europe

The Alstom affair

May 6th 2004 | PARIS
From The Economist print edition

The French government defends state intervention in big business

EPA

Sarkozy the saviour

FRANCE'S new finance minister, Nicolas Sarkozy, has made a showy start as spokesman for the country's business interests. Last week he talked Aventis, a drug company, into agreeing to be bought by a rival, Sanofi-Synthélabo, thereby retaining a national champion in the industry. On May 3rd he met Mario Monti, the EU competition commissioner, to argue for his government's new plan to rescue Alstom, an engineering group that makes France's famous TGV high-speed trains. Then, a day later, Mr Sarkozy proclaimed, in his first press conference as finance minister, that the state has not only the right but also the “duty” to help industry and create national champions.

How to help Alstom is Mr Sarkozy's most pressing, and difficult, challenge. Last year the firm, which employs some 75,000 people, found itself on the brink of going bankrupt. Neither selling its industrial-turbines business to Siemens nor giving Areva, a state-controlled nuclear-power firm, ownership of its power transmission and distribution business in exchange for a cash injection of some €1 billion ($1.3 billion) raised enough money to stave off bankruptcy.

So, despite long and acrimonious discussions with Mr Monti, the French government and a few big banks put together last September a €3.2 billion rescue package. But burdening a heavily indebted firm with yet more debt could only ever have provided temporary respite. Alstom is again heading for bankruptcy—and Mr Monti has not even approved last year's rescue scheme.

Mr Sarkozy went to Brussels this week with three plans to save Alstom, each of which would bring its own set of problems. The first, Mr Sarkozy's favourite, is to force Areva, a profitable firm, to take over Alstom. Anne Lauvergeon, Areva's impressive boss, is fiercely opposed to this, as it would dash her hopes of taking Areva public this year. Moreover, a takeover by a state-owned firm would also violate EU state-aid rules.

Mr Sarkozy's second plan is for Areva to take on Alstom's trains and trams as well as its transmission and distribution assets. Siemens could then buy the rest of the turbine business. This would be legal under EU state-aid rules, but could conflict with Europe's antitrust rules, for Siemens and General Electric would then dominate power generation. Besides, on May 4th Mr Sarkozy said that he does not want to dismantle Alstom.

The third plan, a debt-equity swap, arguably has the most market logic—even if Mr Monti dislikes it because it would make last year's rescue package irreversible. Then he required the French government to give its aid to Alstom in the form of debt, rather than through the purchase of shares in the firm, so that the aid could be reclaimed should he refuse to allow the bail-out. His decision is due next month. But the fact is that the government cannot be repaid by a bankrupt firm. Alstom now has about €3 billion (60%) more debt than it can service. Common sense suggests that both shareholders and lenders should now bear the pain, says Raymond Greaves, an analyst at Merrill Lynch.

None of these solutions is compelling. Short of liquidating the firm, a mixture of asset sales and a debt-equity swap may be the lesser of many evils. If the French government gets its way, as it so often does in such matters, Areva will, alas, be forced into an arranged marriage and Ms Lauvergeon will probably

move on.

Should Mr Monti have been tougher on Alstom last year? He has a good track-record on antitrust enforcement, but has let governments get away with large violations of state-aid rules, says Pontus Lindfeld, a competition lawyer at White & Case in Brussels. But a more assertive stance would not necessarily have delivered a better result. Mr Monti has successfully taken France to court over its aid to Groupe Bull, a computer company. Yet, despite being ordered to do so, France has not reclaimed its loans to Bull. It is hard to enforce policies limiting state-aid without a member state's backing, says Stephen Kinsella, a lawyer in Herbert Smith's Brussels office. Even without Mr Monti's green light, Mr Sarkozy will doubtless continue to find ways to keep Alstom alive.

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Coca-Cola

From old bottles

May 6th 2004
From The Economist print edition

Coca-Cola has turned to its past to find a new boss

Get article background

FEW people within Coca-Cola know better the dangers of changing the recipe than Donald Keough, who almost 20 years ago stood besides Coke's legendary boss, Roberto Goizueta, when he announced that the world's best-selling soft drink would henceforth have a different taste. New Coke was a monumental failure, and the firm went back to the old. It did so again on May 4th, when Mr Keough announced that his long search to find a new chairman and chief executive had finally ended in an invitation to Neville Isdell, a Coke veteran of 35 years, to come out of retirement and take up the reins.

Mr Isdell, a 60-year-old Irishman, was welcomed by investors and analysts as a safe pair of hands. He retired in 2001 having been twice passed over for the top job. But his break from Coke has, says Mr Isdell, made him “far better prepared to lead this company than I was in the past.” He had helped take Coca-Cola into new overseas markets, and ran much of the firm's bottling operations. This may be especially useful. The bottlers have been grumbling, not least because the hunt for a new boss was turning into something of a fiasco.

Coca-Cola has had problems at the top ever since Mr Goizueta died suddenly in 1997. His replacement, Douglas Ivester, was forced to step down after two years. In February, Mr Ivester's successor, Douglas Daft, suddenly announced his retirement. It had been assumed that 51-year-old Steven Heyer, Coke's second most-important executive, would take over. But Mr Keough, a retired Coca-Cola president, was invited to rejoin the board and lead a search that would include outside candidates. Mr Heyer may now depart.

Many outside executives were considered for the job, but did not want it. James Kilts, boss of Gillette, was said to be a front-runner, but ruled himself out. Leading such a famous firm is a daunting prospect. So is having to work with Coca-Cola's star-studded and strong-minded board. Besides Mr Keough, members include Warren Buffett, the world's most successful (and opinionated) investor; Herbert Allen, a top banker; James Robinson, a former boss of American Express; and Barry Diller, a Hollywood mogul turned internet entrepreneur. Mr Isdell, who has long known Mr Keough, reputedly has diplomatic skills that will help when dealing with other board members.

The dominance of the soft-drinks market by Coke and its great rival, Pepsi, may be weakening. Sales are still huge—in the first quarter of this year, Coca-Cola's net revenue grew by 13% from the same period last year, to over $5 billion. But Datamonitor, a firm of analysts, says that growth in sales of traditional colas is slowing. The big opportunities now are in non-carbonated drinks, such as bottled water, juices and various “health” and “energy” drinks.

Mr Isdell says he is aware of such trends and will respond to them. Indeed, last month, Coke announced that this summer it will introduce Coca-Cola C2 in Japan and America. This has been developed in the past year and is said to contain half the sugar, carbohydrates and calories of regular colas. The first thing Mr Isdell should do is check that C2 tastes nice.

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Video games

A serious contest

May 6th 2004
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Can Microsoft's clever strategy level the playing field with Sony?

LIKE the combatants in a beat-'em-up video game, the makers of video-games consoles do battle in orderly rounds, one of which occurs every five or six years. The current round began in 2000, when Sony launched PlayStation 2. In 2001 Nintendo, the firm that once ruled the industry, launched the GameCube, and Microsoft made its first foray into the cut-throat market with the Xbox. Four years on, Sony is the clear winner, with sales of 70m consoles, followed by Microsoft with 14m and Nintendo with 13m.

Next week, the industry's biggest trade show, E3, which takes place in Los Angeles, will provide the first glimpses of the next round. It is expected to be a brutal two-way fight. For, after a difficult start, Microsoft has now established itself as Sony's main rival, and is gaining momentum. Most important, it has won the crucial support of games publishers, says Nick Gibson of Games Investor, a consultancy. That means Microsoft will “pretty much be neck and neck with Sony” in the next round. Nintendo, by contrast, has been less successful at keeping publishers on board, and has survived thanks only to the strength of its in-house software business.

Xbox Live, Microsoft's subscription-based online-gaming service, has also been well received. It provides features, such as global player rankings, that Sony cannot match. And although online gaming is still a minority sport, it is expected to be far more significant in the next round, as broadband connections and wireless home networks become more widespread. By signing up customers for Xbox Live now, Microsoft hopes to retain their loyalty into the next round.

But perhaps cleverest of all is Microsoft's new software-development platform for games, called XNA, a set of software tools that can be used to write games for PCs, Xbox and the forthcoming Xbox 2. According to Robbie Bach, Microsoft's “chief Xbox officer”, insulating programmers from the underlying complexity of the console hardware “creates huge cost efficiency and flexibility.” While Microsoft will probably not unveil the Xbox 2 at E3, says P.J. McNealy, an analyst at American Technology Research, the XNA tools will enable the firm to demonstrate the kind of things that will be possible on Xbox 2 when it appears.

The contrast with Sony is striking. While Microsoft is focusing on software, Sony is emphasising hardware innovation for its PlayStation 3. Its plan, which it has yet to describe fully, is to use a new kind of chip, called Cell, as the basis for both the PlayStation 3 and its consumer-electronics devices, such as DVD players. With multiple Cell chips working in parallel, the PlayStation 3 will be a powerful machine. But its radical new architecture will require games programmers to start from scratch. In the meantime, Sony is trying to keep developers focused on the PlayStation 2.

Microsoft senses an opportunity. It is widely expected to steal a march on Sony by launching the Xbox 2 towards the end of next year, kicking off the next round before Sony is ready. “Microsoft has taken the gloves off,” says Mr McNealy. The PlayStation 3 is not expected until early 2006, and even then only in Japan; analysts do not expect the worldwide launch until late 2006. (Nintendo's successor to the GameCube is also expected in 2006.) Last time around, Sony's 18-month head start and Microsoft's status as the industry's newcomer meant that the Xbox never had a chance of catching up with PlayStation 2; it was always going to be just a trial run for Microsoft. But now Sony and Microsoft look evenly matched—and the battle can begin in earnest.

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Bombardier

Flying into battle

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A Canadian company is about to declare war on Boeing and Airbus

LAST week Boeing launched its first new product in ten years, the 250-seater 7E7 airliner. This week, Airbus opened the factory in Toulouse where it will assemble its A380 super-jumbo, its first all-new aircraft in the same period. But have the two giants that dominate the market for big jet aircraft become so obsessed with each other that they have ignored incipient competition? The world's third-largest aircraft manufacturer, Bombardier, has launched 14 new aircraft in the past 14 years, and is now preparing to move into the market for planes carrying more than 100 passengers—currently a crucial Boeing-Airbus duopoly. Until now Bombardier has specialised in 50-100-seater regional and business jets.

Bombardier's boss, Paul Tellier, has hired a Boeing executive who worked on the 737, the world's most successful plane, to lead a project to develop a new Bombardier model carrying up to 130 passengers, competing head-on with 737s and Airbus A320s. Bombardier, Canada's biggest manufacturer, has flirted before with taking on the big boys, but had to abandon its plans amid a corporate crisis.

In the 1980s, Bombardier had expanded beyond snowmobiles into trains and aircraft, partly by buying distressed industrial assets from the provincial government in Quebec and turning them round. It entered the aircraft business in 1986, purchasing Canadair, best known for its fire-fighting planes. It later bought Learjet, an American maker of business jets.

But in the late 1990s, Bombardier over-expanded, doubling its sales to C$23 billion ($15 billion) in four years. Its business-jet division was so stretched that Microsoft founder Bill Gates had to wait two years for his long-range Global Express jet. Then the company, listed in Canada but still controlled by its founding family, was badly hit by the slump in the airline business. American carriers had no money to buy the regional jets they wanted for their shrunken fleets. Chasing sales, Bombardier's capital arm rashly lent too generously to customers.

Worse still, Bombardier had become the world's leading producer of train rolling stock through the purchase of DaimlerChrysler's Adtranz train-making business in 2001, just as a glut of train-making capacity appeared, and customer railways were too short of cash to buy many new trains. Fortunately, the resulting crisis led to a masterstroke: the family's decision to hire Mr Tellier in December 2002.

A former senior civil servant, Mr Tellier made his name by turning around Canadian National, a freight railway. He halved its bloated payroll, and rotated the axis of its networks from east-west to north-south, to take advantage of Canada's huge trade with America. He bought a couple of American railways, Illinois Central and Wisconsin Central, in the process.

At Bombardier, he spent a year rallying financial support, selling off the snowmobile business and boosting the balance sheet with a C$1.2 billion share issue. Net losses were slashed to C$89m in the year to January 2004 from C$615m the year before. Then, in March, he took the axe to the train business, closing seven factories and shedding nearly 7,000 jobs, mostly in Europe. This week he was at it again, halving the workforce employed at the Berlin head office of the train business.

All this is to get in shape to take on the mighty aircraft duopoly. Challenging Boeing and Airbus is not as daft as it sounds. It should not be hard to build slightly larger versions of the firm's admired 100-seater jets. And Mr Tellier will limit the risk by sharing development costs with suppliers, such as engine makers (perhaps Rolls-Royce) and wing and tail makers (probably Mitsubishi). This just happens to be the same risk-sharing model that Boeing and Airbus are using for their new planes.

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Tourism in Europe

Been there

May 6th 2004 | PARIS
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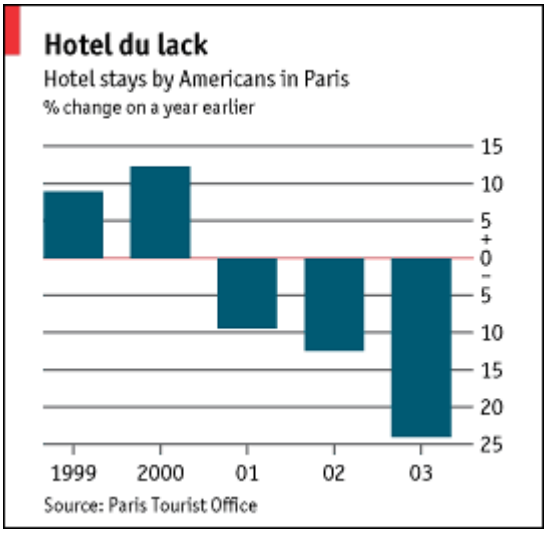
A faint recovery for European tourism

AFTER a horrid two years in which travel was hit by fears of war, terrorism and the threat of SARS, Europe's tourist industry is showing signs of life. It began towards the end of 2003, when American, Japanese and German tourists—the world's biggest holiday-spenders—started to hit the road again.

Most participants at a recent international tourism fair in Berlin predicted "significant" improvement this year. "After a long dry period things are at last looking up," said Michael Frenzel, boss of TUI, when he presented Europe's biggest travel firm's results in March. His profits from tourism dropped by almost 40% last year.

Like many European travel firms, TUI expects growth of about 5% this year. Last year about 10% fewer Americans travelled to Europe—with the so-called "cheese-eating surrender monkeys" of France suffering most (see chart). The crisis hit the entire industry, from "budget" tour operators to hotels and airlines. Accor, a French hotel chain, saw its profits fall by nearly one-third in 2003. Lufthansa, Alitalia and other European airlines plunged far into the red.



The terrorist attacks in Spain on March 11th delivered another shock, but so far it seems that people are prepared to keep booking holidays even so. British Airways, Air France, Scandinavia's SAS and even Spain's Iberia reported healthy passenger traffic in March. The association of Spanish travel agents says that bookings in Spain halved in the two days after the bombings in Madrid, but then returned to normal. "Consumers are getting used to terror, they think it can happen anywhere," says Mario Köpers of TUI.

Yet the recovery is patchy, says Patrick Hargreaves, an analyst at Goldman Sachs. Hotels in America and Britain are bouncing back with revenue-per-available room up by 29% in March. After better-than-expected results for the first quarter, Marriott and Starwood, two big American hotel chains, increased their growth estimates for 2004. But in France, the Benelux countries, Italy and Scandinavia, the recovery is far weaker. This year, though they may feel less hostile to France over its refusal to back the war in Iraq, with the dollar now weak, Americans may think twice before spending $400 for a night in a top Paris hotel.

Much will depend on whether the dollar and Asian currencies recover. The Japanese Travel Bureau, Japan's biggest travel agency, is optimistic about Japanese wanderlust this year. It expects the number of Japanese tourists to rise by 23% compared with last year, though much the biggest rise will be within the Asia-Pacific region.

And even if people do start to travel as much as they did before the September 11th terrorist attacks, they are unlikely to spend as lavishly. Mr Hargreaves doubts that Europe's hotel sector will ever again reach the giddy levels of 2000. One reason is that more and more people are taking advantage of deep discounts available on flights, hotel rooms and package tours offered online. If travellers do return, they will be armed with the technology to drive harder bargains.

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The car industry

Proton bomb

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Malaysia's creaky national car company faces an uncertain future

NORWICH CITY has just won promotion to the Premier league, but things are not going so well for Proton, the Malaysian car firm that sponsors the English soccer team. Founded in the 1980s by Malaysia's then prime minister, Mahathir Mohamad, Proton was meant to symbolise the country's rapid industrialisation and aspirations to first-world status. Now, with free time since leaving office last October, Dr Mahathir is back, hoping to solve the problems of his cherished white elephant.

Alas, his return led several Proton board members to threaten to resign. The row was only defused when Abdullah Badawi, the new prime minister, called an emergency board meeting of the government-controlled firm on April 17th. Ten days earlier, at another board meeting, Proton's largest shareholder, Khazanah, Malaysia's state investment company, failed to remove four directors, including the chief executive, Tengku Mahaleel Ariff.

The mess in the boardroom reflects the mess on the ground. Despite its iconic national status, cheap prices and hefty tariffs imposed on rivals, last year Proton's domestic market share plunged from 49% to 38%, as sales fell by 28% to 155,000 cars. In the latest quarter, it posted a loss. Net profits for the year are expected to more than halve to 519m ringgit ($137m).

There is a reason why even patriotic Malaysians are paying 110,000 ringgit for a 1.6-litre Toyota or Honda when a similar-sized Proton costs less than 60,000 ringgit. The Wira, Proton's family saloon, is over a decade old and beset with faults. JD Powers, a consultancy, says that Proton has the worst quality record in the country.

A new saloon, the Gen.2, has fallen foul of supply bottlenecks and bad design. Since its launch in February fewer than 500 Gen.2s have been delivered. Insiders blame a shortage of engine cylinders, bought in from Australia. Dealers claim the waiting list is five months. Edward Ong, a car analyst at ING, believes “at the current rate, it will be more like five years”. And the Gen.2's roof turns out to be too low for adults in the rear to sit comfortably.

Proton has always violated every principle of economics and car making. The Malaysian market is too small to offer the economies of scale needed by a global carmaker. So Dr Mahathir protected his baby with import duties of 40-300%. These kept Proton alive, but also uncompetitive. The firm has struggled to make good returns on the $2 billion cost of its two factories. Nor has it been allowed to lay off many workers to boost efficiency. Internationally, Proton sold just 8,000 cars in 2003 and its one overseas expansion—buying Britain's Lotus—brought only losses.

Under regional free-trade rules, Malaysia must cut import tariffs to as little as 5%—though it has managed to defer this until 2008 and to raise excise duties in some cases to 800%. Meanwhile, in March Mitsubishi ended its 20-year alliance with Proton, which bases its cars on the Japanese firm's designs.

That has led Khazanah to (reportedly) consider selling a 20% holding in Proton to a foreign carmaker. But any foreign firm would surely want control, in order to restructure Proton properly. Daewoo, the Korean unit of General Motors, may offer Proton an engineering collaboration. But most big carmakers already have operations in Thailand—“the Detroit of Asia”. And with Dr Mahathir around, foreign investors may feel that Proton would be more trouble than it is worth. The government may want to find a partner for Proton fast, but Dr Mahathir is less keen, saying on April 30th that Proton was “considering” offers from foreign car firms, but should be in no hurry to accept.

Proton represents all that was wrong with Dr Mahathir's Malaysia: a firm born of nationalist ideals not

commercial rationale, protected by old-style cronyism and never exposed to real competition. Like its creator, the best thing may be to let it go gently into retirement.

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Business in China

This round is mine

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Multinationals are starting to fight over Chinese assets

EVEN the biggest barrel runs out of beer. Even the biggest country runs out of breweries—at least from the point of view of thirsty international beermakers. On May 5th, SABMiller, the world's second-largest brewer, launched an unsolicited HK$4.3 billion ($550m) bid for control of Harbin Brewery, China's fourth-biggest brewer. Britain-based SAB was forced into this rare show of hostility—foreigners normally use friendly deals to invest in China—by its bigger American rival, Anheuser-Busch. Anheuser last week agreed to buy a 29% stake in Hong Kong-listed Harbin, a firm that SAB thought it had all stitched up via its own 29.6% holding, acquired in 2003.

China's central government and local municipalities are privatising state-owned enterprises in growing numbers. With over 400 breweries on the mainland, for example, every global beer firm has been able to pick a partner or two of its own. Getting the best is trickier. Three of the four-biggest Chinese brewers already have foreign partners—including Anheuser Busch with Tsingtao and SAB with China Resources Brewery.

More than $1 billion is flowing into China as foreign direct investment each week, so such fights are likely to become more common—albeit more in some parts of the economy than others. In sectors where distribution, local brands and local expertise matter—consumer goods and (eventually) financial services—expect an increasingly bitter fight for the best domestic firms. But foreign firms supplying technology or heavy capital investment—such as in semiconductors, petrochemicals and even cars—will mainly focus on greenfield development, and are now trying to shed joint-venture partners in favour of wholly-owned operations. Nor is the state likely to loosen its grip on “strategic” industries such as oil, power and telecoms.

Bid battles are a recipe for overpayment. Chinese government officials have no scruples about playing off foreigners against each other. SAB's chief executive, Graham Mackay, admits that his firm's decision to fight Harbin's municipal government (which originally owned the contested 29% stake) over price backfired, letting in Anheuser. SAB is now offering 90% more for Harbin shares than it paid for its original stake—and even that, er, frothy price may not be enough.

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Face value

The lunatic you work for

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If the corporation were a person, would that person be a psychopath?

TO THE anti-globalisers, the corporation is a devilish instrument of environmental destruction, class oppression and imperial conquest. But is it also pathologically insane? That is the provocative conclusion of an award-winning documentary film, called “The Corporation”, coming soon to a cinema near you. People on both sides of the globalisation debate should pay attention. Unlike much of the soggy thinking peddled by too many anti-globalisers, “The Corporation” is a surprisingly rational and coherent attack on capitalism's most important institution.

It begins with a potted history of the company's legal form in America, noting the key 19th-century legal innovation that led to treating companies as persons under law. By bestowing on them the rights and protections that people enjoy, this legal innovation gave the company the freedom to flourish. So if the corporation is a person, ask the film's three Canadian co-creators, Mark Achbar, Joel Bakan and Jennifer Abbott, what sort of person is it?

The answer, elicited over two-and-a-half hours of interviews with left-wing intellectuals, right-wing captains of industry, economists, psychologists and philosophers, is that the corporation is a psychopath. Like all psychopaths, the firm is singularly self-interested: its purpose is to create wealth for its shareholders. And, like all psychopaths, the firm is irresponsible, because it puts others at risk to satisfy its profit-maximising goal, harming employees and customers, and damaging the environment. The corporation manipulates everything. It is grandiose, always insisting that it is the best, or number one. It has no empathy, refuses to accept responsibility for its actions and feels no remorse. It relates to others only superficially, via make-believe versions of itself manufactured by public-relations consultants and marketing men. In short, if the metaphor of the firm as person is a valid one, then the corporation is clinically insane.

There is a tendency among anti-globalisers to demonise captains of industry. But according to “The Corporation”, the problem with companies does not lie with the people who run them. Sir Mark Moody-Stuart, a former boss of Shell, comes across in the film as a sympathetic and human character. At one point, he and his wife greet protesters camped on the front lawn of their English cottage with offers of a cup of tea and apologies for the lack of soya milk for the vegans among them. The film gives Sam Gibara, boss of Goodyear, time to air his opinions, which are given a reasonably neutral edit. Ray Anderson, boss of Interface (which claims, with psychopathic grandiosity, to be the world's largest commercial carpetmaker) is given the hero treatment. Having experienced an “epiphany” about the destructive and unsustainable nature of modern capitalism, Mr Anderson has donned the preacher's cloth to spread the religion of environmental sustainability among his peers.

The main message of the film is that, through their psychopathic pursuit of profit, firms make good people do bad things. Lucy Hughes of Initiative Media, an advertising consultancy, is shown musing about the ethics of designing marketing strategies that exploit the tendency of children to nag parents to buy things, before comforting herself with the thought that she is merely performing her proper role in society. Mark Barry, a “competitive intelligence professional”, disguises himself as a headhunter to extract information for his corporate clients from rivals, while telling the camera that he would never behave so deceitfully in his private life. Human values and morality survive the onslaught of corporate pathology only via a carefully cultivated schizophrenia: the tobacco boss goes home, hugs his kids and feels a little less bad about spreading cancer. Company executives and foot soldiers alike will identify instantly with this analysis, because it is accurate. But it is also incomplete.

The greater insanity

Although the moviemakers claim ownership of the company-as-psychopath idea, it predates them by a century, and rightfully belongs, in its full form, to Max Weber, the German sociologist. For Weber, the key form of social organisation defining the modern age was bureaucracy. Bureaucracies have flourished because their efficient and rational division and application of labour is powerful. But a cost attends this power. As cogs in a larger, purposeful machine, people become alienated from the traditional morals that guide human relationships as they pursue the goal of the collective organisation. There is, in Weber's famous phrase, a “parcelling-out of the soul”.

For Weber, the greater potential tyranny lay not with the economic bureaucracies of capitalism, but the state bureaucracies of socialism. The psychopathic national socialism of Nazi Germany, communism of Stalinist Soviet rule and fascism of imperial Japan (whose oppressive bureaucratic machinery has survived well into the modern era) surely bear Weber out. Infinitely more powerful than firms and far less accountable for its actions, the modern state has the capacity to behave even in evolved western democracies as a more dangerous psychopath than any corporation can ever hope to become: witness the environmental destruction wreaked by Japan's construction ministry.

The makers of “The Corporation” counter that the state was not the subject of their film. Fair point. But they have done more than produce a thought-provoking account of the firm. Their film also invites its audience to weigh up the benefits of privatisation versus public ownership. It dwells on the familiar problem of the corporate corruption of politics and regulatory agencies that weakens public oversight of privately owned firms charged with delivering public goods. But that is only half the story. The film has nothing to say about the immense damage that can also flow from state ownership. Instead, there is a misty-eyed alignment of the state with the public interest. Run that one past the people of, say, North Korea.

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Structural reform in Germany

How to pep up Germany's economy

May 6th 2004
From The Economist print edition

REX

Germany needs to do much more than tinkering if it is to rescue its stalled economy

LIKE Chairman Mao, Gerhard Schröder has published a little red book. Nearly 6m copies of the German chancellor's colourful tract explain to the people how Agenda 2010, the economic reform process unveiled in March 2003, is supposed to be changing their lives. Health, education, labour, training, tax, social security, family welfare, unemployment benefit and pensions are distinct areas of reform. But they all form one glorious building site that should restore Germany to its rightful place as the most productive, most competitive country in Europe. “Germany”, asserts the little book, “is on the move.”

Well, no it isn't, says a frustrated business community from the Rhine to the Oder. From its position as the economic powerhouse of Europe, Germany has stumbled badly since reunification in 1990, and it is showing few signs of new momentum. Its GDP, once among the most dynamic in the European Union, has grown by a meagre annual average of 1.4% over the past decade, half the EU average and well below America's 3.3%. Only 4 of the EU's 15 members before enlargement on May 1st have a lower income per head. It says much about Germany's relative decline that it now relies on the much poorer accession countries to help lift it above the latest EU measure of average income.

One feature of Germany's stagnation is its poor record on jobs. Since 1993, the number of jobs in Germany has grown by only 0.2% annually, against a rate of 1.3% in the rest of the EU. Unemployment has been stubbornly high at around 4m, and figures released this week did little to dispel the gloom—this year joblessness has risen for four months in a row to 4.4m. Meanwhile the government is bickering about its macro-economic policies, debating whether to abandon previously agreed budget deficit levels in a belated effort to stimulate growth (see leader and article).

A consequence is that many German businesses, especially those small and nimble enough to move elsewhere, are seriously considering relocation abroad. Even those bent on keeping their headquarters in Germany say they are likely to shift as much of their workforce abroad as they can.

A recent poll by *Handelsblatt*, a leading business newspaper, and Droege & Company, a consultancy in Dusseldorf, asked 3,500 company directors whether the government's structural reforms had affected their business in the first quarter of the year. “Not at all”, said 75% of the respondents. Another 15%

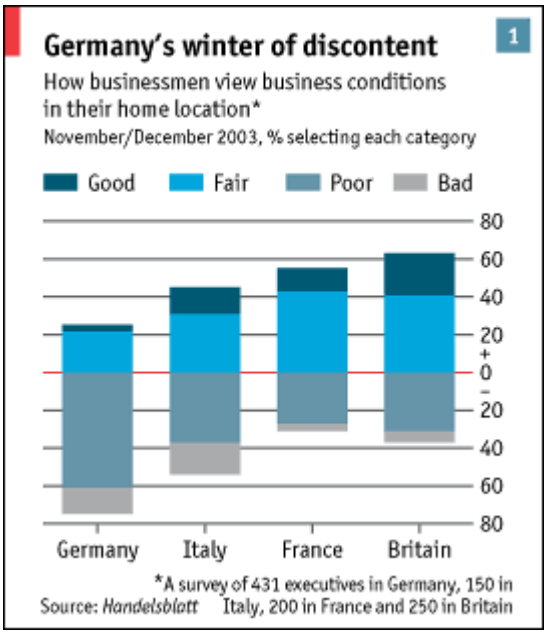
said the overall effect was “negative”. Compared with previous quarters the poll showed increasing pessimism about Germany as a business location. Three-quarters of respondents said business conditions had failed to improve or had got worse (see chart 1).

In March, Ludwig Georg Braun, the president of DIHK, the federation of chambers of commerce and industry, said firms should not wait for reforms to change things in Germany, but turn eastward to the accession countries joining the European Union on May 1st. Mr Schröder responded angrily, calling this exhortation an “unpatriotic act”.

But why are businesses so urgently considering a move out of Germany? Apart from the high level of taxation—the highest in Europe—the simple answer, and one not properly addressed by Mr Schröder or his Agenda 2010, is German labour law.

Germany will not truly be on the move until the rules on hiring and firing are radically altered. Yet Agenda 2010 does no more than tinker with them. Since the beginning of this year, job protections have been loosened, but only by a little.

Software AG, a globally active firm based in Darmstadt, wanted to lay off around 200 staff at the end of last year. The new rules certainly made it easier and the firm was quick to take advantage of them; but the lay-offs still took three painful months. In America the same exercise took two weeks, and in Britain four. “It is getting better,” says Matthias Faust, Software AG's head of human resources. But when his company is back in hiring mode, where is it most likely to add staff? “Can I honestly advise the board to hire in Germany rather than in a country where it's easier to lay people off again?” he asks rhetorically. It is not just firing that is difficult: German labour relations are hedged about with troublesome rules.



At the core is the position of the workers' representative, the *Betriebsrat*. Co-determination between management and employees is a worthy principle which, in its 1960s heyday, helped to build strong German companies, maintaining harmony between workers and employers. But that was during Germany's *Wirtschaftswunder*, a period of high growth following the post-1945 reconstruction. Now the *Betriebsrat* has too much power, especially in smaller companies, including the right to determine how bonuses are distributed and to object to the relocation of an employee to Germany from abroad—including from EU member states.

Any company with five employees or more can be landed with a *Betriebsrat* if the workers decide they want one. “Can you imagine”, says an employment expert, “the anxiety in a small law firm, with four staff and one part-time worker, about the implications of taking on another worker if one of them gets sick?”

A measure of its lack of radicalism, Agenda 2010 simply steers clear of the law that governs the *Betriebsrat*. Mr Schröder's weak Social Democrat/Green coalition is hampered by its lack of a majority in the Bundesrat, the upper house. This makes any controversial legal changes difficult. So Mr Schröder has decided not to touch this area of labour-market law at all.

Faint praise

In fact, Mr Schröder's growing political weakness is the main reason why his reforms are stalling, and why companies have lost confidence in any rapid change. His party has less than 30% support in the polls, the lowest since he took office. His only consolation is that 80% of the public doubt the opposition could do any better.

On the first anniversary of Agenda 2010, business leaders were lukewarm about the achievements so far and said the reforms had not gone far enough. Heinrich von Pierer, chief executive of Siemens, said the direction was right, but “concrete steps” were needed to promote innovation and growth. Jürgen Hambrecht, head of BASF, a chemical firm, praised the direction too, but not the speed, warning

politicians to look somewhat further than just the next election. Unfortunately, there are 12 regional elections this year, and European parliamentary elections in June. Economists expect any new decisions on Agenda 2010 to turn bland and voter-friendly, with plenty of talk about education and innovation, but not much action.

Corporate tax reform has been a stop-start process, leaving companies uncertain about future tax bills and benefits. The level of basic corporate tax is still the highest in western Europe, at 38.7%, compared with 35.4% in France, 34% in Austria (falling to 25% next year) and 12.5% in Ireland. There are many ways for companies to reduce this burden, but they tend to favour the larger firms. Cynics say that is because the architect of tax reform, Heribert Zitzelsberger, was previously head of the tax department at Bayer, a chemical giant.

For big companies Germany is a kind of tax haven, according to Lorenz Jarass, an economics professor at Wiesbaden University. In aggregate, the top 30 listed companies tend to get more credits back from the government than they pay in tax. For example, in 2002, DaimlerChrysler reclaimed a net €1.2 billion ($1.5 billion), while the tax payments of Thyssen Krupp and Lufthansa netted out at zero. That sort of thing irks the smaller, *Mittelstand* companies, which insist they are the backbone of the German economy, employing 70% of the workforce, accounting for 46% of investment and creating 70% of all new jobs. There are fewer ways open for them to reduce their tax bills. The option of offsetting last year's losses against this year's tax, for example, has been greatly curtailed since the start of this year.

Every third German company now wants to locate at least part of its production in central Europe, says Heiko Stiepelmann, spokesman of the Building Industry Federation. His industry has been particularly hard hit. It has long been heavily supported by subsidies, such as those for building private homes. But since 1995 employment in the building industry has fallen from 1.4m to 814,000. Building firms are finding financing a problem for several reasons. Banks are reluctant to lend or give guarantees because of their own tougher capital regulations, while fierce competition means firms cannot raise prices, as they normally have done, to build capital coming out of a recession.

The pressure on them to cut costs and wage packets is immense. There is hardly a mid-size builder that does not employ foreign workers, says Mr Stiepelmann. Lower wage levels in the neighbouring eastern countries are a gathering threat. For the next seven years firms from the ten accession countries may not set up shop in Germany, but this respite should not make German builders complacent. “Building firms must invest in the east as well,” says Mr Stiepelmann. He argues that they cannot hope to compete on labour costs, but should play to their skills as “project and facility managers”.

Tough talking

IG Bau, the building workers' union, is one of the few to understand the gravity of the situation. This year it did not even attempt a round of wage negotiations. Unions in other industries have been less co-operative. IG Metall, Germany's biggest blue-collar union, had a showdown last year in eastern Germany. Although it was forced to back down, Jürgen Peters, its leader, retained enough credibility to be elected to another term. Mr Peters then negotiated modest wage increases throughout Germany, showing that unions remain a force to be reckoned with, at least among firms that are still unionised. In eastern Germany, union membership is declining.

Meanwhile, Siemens is locked in negotiations with IG Metall and other unions over the employment conditions for a new mobile-phone handset factory in North-Rhine Westphalia. Mr von Pierer has threatened that, if projected costs cannot be lowered by 30% in the next few weeks, he will move the project to Hungary. Such tactics are needed to take the wind out of the unions' sails.

AFP

The unions just do not understand economics, complains one German economist. They believe there is a finite number of jobs to go round and do not see that reducing a workforce or even locating operations abroad can make a company more competitive and thus able to create new jobs at home. Professional economists in general are frustrated by the government's handling of the reforms. This may partly be sour grapes: the Hartz Commission, established to reform the labour market and create new jobs, has sociologists on board but not a single economist.

If they had been included, economists might have offered a few useful observations, such as disabusing the unions' belief that wage hikes invariably stimulate demand. Baron Münchhausen, the legendary German braggard, once boasted that he rescued himself from a swamp by grabbing his own forelock and pulling himself out, followed by the horse he was sitting on. Michael Burda, an economics professor at Berlin's Humboldt University, uses this image to illustrate why Germany must shake off its illusions and reduce its labour costs. Workers in Germany earn an average of $26 an hour, compared with $21 in America and $17 in France and Britain. In neighbouring eastern Europe, where the German unions' stiffest competition lies, the average is around $4 an hour.

Germany isn't working

Unfortunately, Germany suffers from another economic affliction, claims Mr Burda. He cites William Baumol, an American economist, who pointed out in 1967 that productivity in services lags productivity in manufacturing, because most services, such as health care and teaching, are difficult to automate. So developed economies are spending an ever-increasing proportion of their wealth on services. In Germany, observes Mr Burda, productivity gains in services have been particularly sluggish.

One of the Hartz Commission's most dubious achievements was to revamp the Federal Agency for Jobs into a commercial-style operation that spent millions on publicity and flashy new premises. Its original boss, Florian Gerster, was fired in January for overspending on consultants. His high salary and flamboyant lifestyle did not sit well with the agency's poor record for getting people back to work, especially the long-term unemployed of whom Germany has proportionally more than rival big economies.

Ersatz employment

One much-trumpeted government measure has been the introduction of “mini-jobs”, casual jobs that pay between €400 and €800 a month. These have attracted around 1m people. But Viktor Steiner of DIW, the German Institute for Economic Research in Berlin, has argued that these jobs are cannibalistic. They have tempted the young and the old out of full-time employment rather than attracting the long-term unemployed. Options to take early retirement or quit the labour market have been too cushy. From 2005, unemployment benefits will no longer last indefinitely, but will stop after a year—a long overdue change—and those who consistently refuse job offers will be penalised.

These areas of reform—unemployment benefit, mini-jobs, re-allocating benefits and spending more on education and training—do not delight hard-nosed entrepreneurs. The last thing a cost-cutting company wants is to have to spend more on training and other welfare contributions that do not directly help its business. Yet the government has been dithering about whether or not to levy fines on companies that have not filled their training quota.

This vacillation, combined with sudden U-turns and a cacophony of conflicting proposals, characterises the government's approach to the reforms. For example Manfred Stolpe, minister for construction and transport, and the only east German in the cabinet, recently called for fresh efforts to enliven the labour market in the former East Germany with new wage subsidies. There was an immediate protest: surely the wage subsidies should be applied in the west as well? So Mr Stolpe extended the plan to cover the entire country, a hugely backward step. The last thing Germany needs are new, expensive wage subsidies which will have to be paid for by those already in employment.

Despite years of public discussion about labour-market reforms, the truth is that the debate has sadly lost sight of the basic obstacles to economic recovery:

• European economic and monetary union in January 1999, although enthusiastically endorsed by Germany, has robbed it of the means to adjust interest rates and exchange rates to optimise its own economic recovery.

• Reunification with East Germany has been colossally expensive, costing €1.25 trillion since 1990, and still consuming 4% of GDP in transfers, with the added burden of 20% unemployment in the region.

• The country's federal power structure, spread over 16 independent *Länder*, was deliberately designed

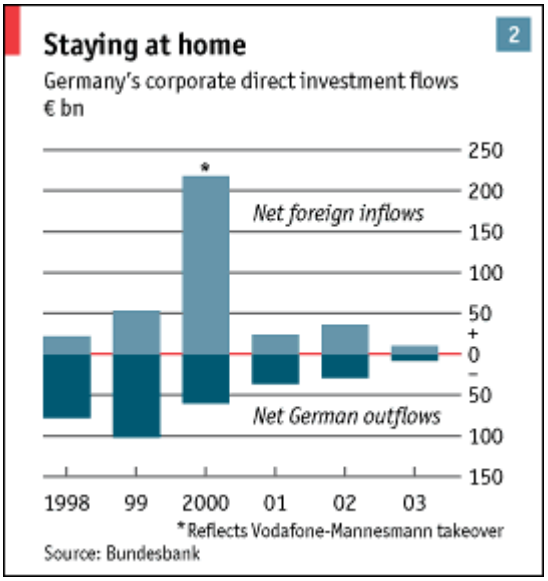
after the second world war to weaken the ability of a central government to impose radical reform, and it is proving all too effective.

• The country's cumbersome and expensive labour laws are a crippling anachronism in a globalised, service-driven and high-tech world economy.

Money in, jobs out?

There are a few mildly optimistic voices to be heard. German businessmen, like farmers, tend to talk doom and gloom, says David Marsh, managing director at Droege, the consultancy. He argues that they never expected much from Mr Schröder's reforms and have been pleasantly surprised even by what little has been achieved. Investment flows in and out of Germany paint a less than gloomy picture, he says. The net capital flow is positive, which means more corporate and portfolio investment is coming in than going out (see chart 2). However, the sums are modest compared with the flows in and out until 2002—especially after discounting the €180 billion purchase of Mannesmann by Vodafone in 2000. Nevertheless, non-German private-equity firms continue to buy and restructure German companies, seeing value in them despite their location (see article). Indeed, Mr Marsh believes that many German companies today are undervalued.

A few companies are defying Germany's reputation and are quietly investing in a German-based future. AMD, an American chip manufacturer, is building a second plant in Dresden at a cost of about €2 billion. While AMD has laid off 2,000 people worldwide, it managed to keep up its numbers in Dresden, though it put some workers on short-term contracts. “The Saxons are a highly flexible people,” says Hans Deppe, head of AMD's Dresden operation. That includes local authorities, which have been quick to approve and support investment plans. BMW, a successful carmaker, is building a new €1.3 billion plant in Saxony.



But these are exceptions. Most business people simply long for the government to get on with it, as Margaret Thatcher did in Britain in the 1980s. However, that would be very un-German. The post-war consensus model remains robust, even if the German economy no longer is. Modern Germans, it seems, are prepared to put up with a great deal before endorsing an abrupt change of direction. But, then, no one can be quite sure how they will respond until Mr Schröder, or some other political leader, truly sticks his neck out and demands that they face reality.

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Google

Up for grabs

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From The Economist print edition

The world's leading search engine is to offer shares to the public. Its approach is novel, but will it set a trend?

“GOOGLE is not a conventional company. We do not intend to become one.” Thus begins the intriguing filing to America's Securities and Exchange Commission (SEC) by the world's largest internet-search company, in preparation for its keenly awaited initial public offering (IPO) later this year.

Not conventional, indeed. Geeky and proud of it, Google's bosses plan to raise up to one $1 billion times e (2.718), mathematical shorthand for the base of natural logarithms. Part of the flotation will be by auction (see article). And the filing is suffused with the moral fervour of those little sullied by contact with Wall Street. Some companies might say they want to “make the world a better place”; few can have had “Don't be evil” as part of their mission statement.

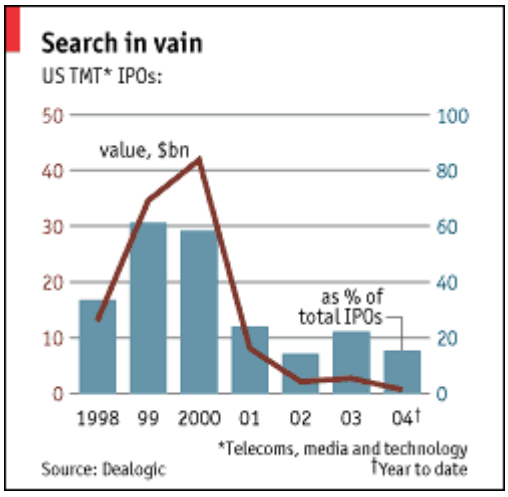
But then investors are hot for the next big thing; investment banks are hungry for technology business after a few lean years; and the rich can afford to be altruistic. The sale of part of the company is likely to value the whole at more than $25 billion, making the firm's founders, Larry Page and Sergey Brin, very wealthy. Many also hope that the flotation will change the way companies issue shares, cut the high fees charged by investment banks for issuing new shares, challenge the perceived short-termism of American investors, or even herald a new wave of enthusiasm for technology shares. Whether any of this will happen, though, is far from clear.

It seems that Messrs Brin and Page were pushed into an early IPO by two venture-capital firms that backed their company, Kleiner Perkins Caufield & Byers, and Sequoia Capital. No wonder the venture capitalists were keen, given the likely return on their investment. The founders of Google would have been much happier staying private, without the constant need to justify their actions to outside investors. The company does not exactly need the money. Google looks set to make operating profits of some $600m this year. Its revenues in the first quarter of this year were twice those of a year before.

It is that growth, powered mainly by “contextual advertising”, in which sponsors pay for links when certain words are entered in Google's search engine, that is so attracting investors. On current estimates, comparing Google with similar firms, such as Yahoo!, investors look likely to pay handsomely, with a price-earnings ratio of 100 or so. They seem unfazed by the creative destruction that is so much a part of the technology industry and the threats to Google from the likes of Yahoo! and Microsoft, a company with

form when it comes to putting competitors out of business. Warren Buffett, revered value investor, will not be after its shares: “It's a fabulous business but my guess is it comes at a fabulous price.”

Mr Buffett, however, apparently approves of the “long-term” approach of the two founders and Eric Schmidt, Google's chief executive. The chatty letter that Messrs Brin and Page affixed to their SEC filing was modelled on Mr Buffett's annual missive to shareholders in his company, Berkshire Hathaway. The proposed share structure, which gives existing owners more votes than new ones will get, also bears a close resemblance to Berkshire's.



The aim is to make it harder for Google to be taken over and to make it easier for the firm to plan for the long term. The downside is that suppliers of capital will have little say in how their money is spent. The share structure also reflects the founders' reluctance to go public.

Nor is Google's flotation, despite the wide-eyed hopes of many venture capitalists, likely to be another Netscape—the browser whose IPO in 1995 kicked off the dotcom boom. Messrs Brin and Page were unusual in not wanting to go public: most entrepreneurs, says one consultant, would love to cash in. Most have not done so because the number of reasonably profitable dotcoms still in private hands can be counted on the fingers of one of them.

Moreover, in order to float, technology companies must be more profitable than they once had to be because regulations were toughened after the bubble, making compliance more expensive. The boss of one technology company preparing to go public shortly says that keeping to the letter of the Sarbanes-Oxley act costs his firm perhaps $200,000 a month. Scandal from the bubble era has also pushed up sharply the price of insuring a firm's senior employees against lawsuits brought by investors. If today's regulations had been in place in 1986, believes this executive, neither Microsoft nor Oracle would have been able to go public.

Despite the extraordinarily handsome values that investors still attach to them, a flood of technology IPOs is therefore unlikely. Last year there were a few offerings, from the likes of iPayment, a credit-card processor, and Orbitz, a travel site owned by airlines. This year, they have been more frequent. In March, Brightmail, an anti-spam software firm, and Shopping.com, a comparison shopping site, filed for IPOs. In April, Lindows, a desktop Linux distributor, and Salesforce.com, a sales-management company, followed suit. But few others are on the horizon.

There are, however, compensations for Wall Street's finest. Their role in hyping the dotcom bubble and other murky practices seems largely forgotten. Google's flotation will be led by Morgan Stanley and Credit Suisse First Boston (CSFB), the two banks most associated with technology shares in the late 1990s. With delightful irony, Frank Quattrone, who led CSFB's technology business, has just been found guilty of obstruction of justice (see article).

Moreover, IPOs are picking up sharply in other areas, notably health care, which has accounted for 40% of all flotations this year, according to Renaissance Capital, a fund that specialises in investing in new issues. Still, if investment bankers look beyond the current spate of IPOs, they may see a time when, thanks to the auction that Google has insisted on, the huge fees that share offerings generate will be a thing of the past. Stranger things have happened.

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About sponsorship

The economics of auctions

Cursed

May 6th 2004
From The Economist print edition

In the design of successful auctions, the devil is in the details

BY DECIDING to stage an auction in order to help establish the price for its shares, Google has caused a stir. The company plans to allow investors to bid for shares in a “Dutch” auction. In such an auction, bids are accepted starting with the highest and moving down until all available shares are sold. All winning bidders then pay the lowest successful bid price.

The result, hopes Google, will be an initial public offering (IPO) that is fairer and more transparent than the norm. Moreover, by balancing supply and demand, an auction could reduce the “pop”—a sharp rise in price once trading starts—seen after the issue of many sought-after shares in the late 1990s, and cut out the accompanying shenanigans by investment banks.

Over the centuries, auctions have been used to sell all sorts of goods, from fine art to slaves. They have flourished anew in the past decade thanks partly to the spread of liberal economic thinking and partly to the rise of the internet. Governments have used them to privatise state companies and to sell mining and broadcast rights. EBay, which serves as a giant, online auction house, has become one of the world's most successful dotcoms. Priceline, another dotcom, lets travellers bid for airline tickets and hotel rooms.

Google's effort is not the first attempt to use an auction in an IPO. For years WR Hambrecht, a Californian investment bank, has been trying to float companies via its “OpenIPO” system. However, with a few exceptions—small companies such as a winery and Salon.com, an online magazine—the idea has not been adopted. It seems that investors like the pop from the usual IPO process. And although companies are likely to raise more money from auctioning shares, investment banks are keen to keep control.

More generally, auctions have turned out to be anything but the panacea some economists once suggested. European countries auctioned licences for 3G mobile telephony in 2000 and 2001. The prices paid by telecoms firms turned out to be so high that many of them have struggled to survive under a mountain of debt. Government coffers, however, were filled.

Paul Klemperer, an economics professor at Oxford University and a designer of Britain's 3G auction, explains in a new book* that the details of auctions can make all the difference. In essence, auctions can fail in two main ways: by setting a price that is too high, or one that is too low. The latter failure has been more common recently. Collusion between bidders can reduce the price paid, as happened in one American auction of radio spectrum in the 1990s. Alternatively, the costs of entering an auction can be prohibitive, as with one British television franchise. The government had imposed such high costs by requiring detailed programming plans that only one bidder bothered.

Given the large number of expected bidders and the relatively low costs, Google's IPO runs a bigger risk of setting a price that is unsustainably high. That would be the result of what economists call the “winner's curse”: high bidding by naive punters that allows them to win an auction, but only by overpaying.

Mr Klemperer says that Google needs to do more to save its auction from this fate. Ensuring that small investors have the same information provided to big investors would help. So would simply explaining to unsophisticated bidders how the Google auction will work.

One concrete idea proposed by Mr Klemperer is to start by auctioning a small fraction, say 10%, of the shares to institutions. This would allow more sophisticated investors to give their view of the fair price, before unsophisticated individuals place their bets. Another option is to hold an “English” (ascending-bid)

auction in which institutional shareholders' bids can be observed. Again, inexperienced investors could keep a close eye on what the smart money is doing, and adjust their bets accordingly. This could diminish the risk that over-eager punters bid up the price too high, which would put a damper on the use of such auctions in the future.

Whatever happens, Google's IPO will not be the last attempt to use auctions in a new way. Nevertheless, if the firm is careful enough to avoid a debacle, it will do a great favour to those who want to follow in its footsteps.

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* "Auctions: Theory and Practice". Princeton University Press, May 2004

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Frank Quattrone

Friendless Frank

May 6th 2004 | NEW YORK
From The Economist print edition

Prosecutors take down another star

Reuters

Quattrone alone

THE salesmanship that enabled Frank Quattrone to become the leading investment banker of the dotcom boom failed him when it mattered most, in his retrial for obstructing justice. Found guilty on May 3rd, he faces more than a year in jail—and the attentions of a swarm of plaintiff lawyers willing to represent anyone with even a tangential claim to have lost money on his many bubble-era deals.

As with Martha Stewart, convicted on similar charges two months ago, denied a retrial this week and now awaiting sentence, prosecutors began by seeking breaches of securities law before falling back on charges of obstruction. Ms Stewart was accused of lying to cover up having received inside information. Mr Quattrone's trial centred on his e-mailed request to his subordinates to “clean up” their files. Both cover-ups happened long after the events that triggered the original investigations. Neither Ms Stewart nor Mr Quattrone was shown to have concealed anything wrong. No matter: their juries decided there was enough evidence of obstruction.

Specifically, Mr Quattrone was prosecuted for obstructing a grand-jury investigation into the payment of high commissions by hedge funds in exchange for shares in hot initial public offerings (IPOs). His employer, Credit Suisse First Boston, settled civil charges related to these commissions in 2002, paying a $100m fine. Mr Quattrone was neither interviewed in the investigation nor charged with any crime.

A second investigation followed into “spinning”, the providing of shares in hot offerings to executives of other companies in exchange for the right to manage their IPOs later. It was a suspect practice. By passing on shares at favourable prices in order to gain business later, investment bankers were not acting in their current clients' best interest, because they were not getting the highest possible price for the shares. Executives who accepted these shares, and then hired investment banks in return, were in breach of their duty to their shareholders. Yet spinning had been tolerated by regulators for years until they had a change of heart. As part of the broader settlement on equity research reached by regulators and Wall Street firms in 2003, which covered spinning, CSFB agreed to pay $200m.

Mr Quattrone's part in all this was long a source of conjecture. Although the term “friends of Frank” was used to describe the company bosses to whom hot shares were spun, Mr Quattrone claimed to have had nothing to do with how IPOs were allocated until e-mails unearthed by prosecutors during his first trial showed otherwise. His role in spinning is now under investigation by the National Association of Securities Dealers.

The ex-banker's delay in acknowledging his part in spinning damaged his credibility. It might also explain why he may have wanted details of deals to be deleted. In the second trial, it emerged that allegations that information had been destroyed had also surfaced in a suit filed against Morgan Stanley, Mr Quattrone's former employer, in the early 1990s. This may also have affected the jury.

In his defence, Mr Quattrone argued that when his infamous e-mail was sent he was not aware of any investigation into his activities. But the jury chose not to believe him. “You don't get to the top without being aware of a lot of different things,” explained one juror after the verdict. The first time around, there were almost two weeks of deliberation before a deadlocked jury caused a mistrial. This week, the guilty verdict was returned within hours.

Immediately after the verdict was announced, Mr Quattrone's lawyer promised an appeal on the grounds that the judge, Richard Owen, had prevented critical evidence from reaching the jury. There may therefore be at least one more round before this case finally ends.

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World Trade Centre insurance

Bad forms

May 6th 2004
From The Economist print edition

After a rancorous trial, relief for many insurers of the twin towers

AP

Silverstein's the loser

IT WAS a $3.5 billion question: was the crashing of two aeroplanes into New York's twin towers in September 2001 one event or two? One, many insurers are relieved to know. On May 3rd a jury ruled that Swiss Re, the world's second-largest reinsurer, which wrote about a quarter of the coverage for the World Trade Centre, was bound by a form that classed such attacks as a single occurrence. Last week the same jury had reached a similar verdict for several Lloyd's of London syndicates and seven other insurers. The loser was Larry Silverstein, the centre's leaseholder. He had argued that another form was valid, in the hope of claiming around $7 billion for two events. Now he may get only half that.

In most disaster insurance, “occurrence” is carefully defined. Earthquake coverage typically treats all shaking during a four-day period as one event, says Robert Hartwig of the Insurance Information Institute. The dispute over the World Trade Centre arose because Mr Silverstein—who leased it in the summer of 2001—was still finalising his insurance policy when the buildings were destroyed.

Mr Silverstein's lawyers argued that although many insurers had signed slips based on the one-occurrence form (known as “WilProp”), they were actually bound by a different form (“Travelers”), which does not define occurrence. Mr Silverstein's side claimed insurers had been told of the planned switch from WilProp to Travelers before the attacks, even if they did not read the new form or said they never received it. The insurers disagreed. “You cannot change the insurance contract after the loss,” says Jacques Dubois, chairman of the American arm of Swiss Re.

The jury, after two months of trying to work out who said or e-mailed what to whom, sided for the most part with the insurers. However, it decided that three—Royal Indemnity (the local arm of Britain's Royal & SunAlliance), Swiss-owned Zurich American and Twin City Fire Insurance—were bound by Travelers.

The muddle over forms is hard to credit. Such a litigious business, you might think, would have everything signed and sealed before a policy goes into place. Not so. One reason is that on a big policy such as that covering the World Trade Centre lots of insurers will share the risk. Bringing them all together is tricky enough for a broker, so details—such as making sure they all sign the same form—are often sorted out later. Sometimes “you do the best you can, and revisit it later when the market settles down,” explains one London broker—although he adds that things have been tightened up in recent years.

More litigation is to come. Some insurers, with around $1 billion of coverage, are bound by other forms, so a new jury will decide whether the attack counts as two events or one under those forms. Royal Indemnity, Zurich American and Twin City will join this group. But even if Mr Silverstein collects extra from them, he has already spent a bundle on lawyers' fees. He has pledged to use his insurance money to rebuild the World Trade Centre site. The $12 billion project is to be capped by a 1,776-foot glass “Freedom Tower”. And if he has the money for all this, he will no doubt be looking for insurance.

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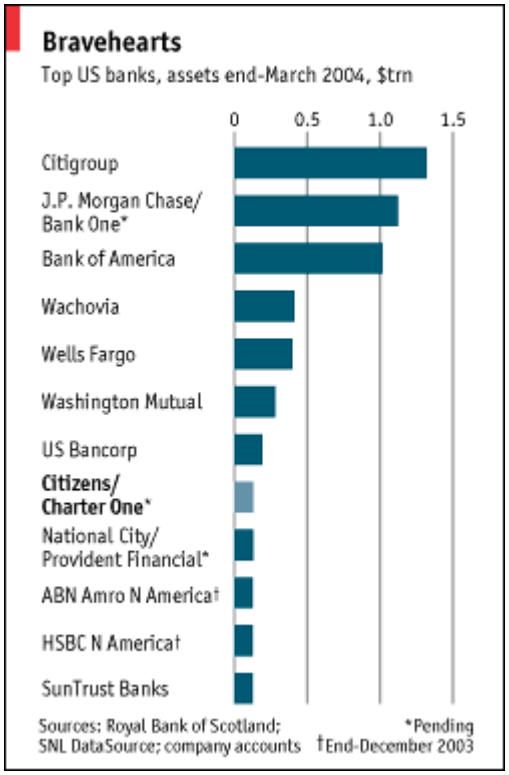
Retail banking

Westward, ho!

May 6th 2004
From The Economist print edition

Britain's second-biggest bank looks to America for growth



EUROPEAN banks have been quaking in their boots since last October, when Bank of America swallowed FleetBoston Financial for $47 billion. J.P. Morgan Chase offered even more for Bank One three months later. The Europeans have been slow to merge among themselves—across national borders, at any rate—and fear that big American banks might look across the Atlantic for their next purchases. Some Americans have indeed taken a close look at European targets. Yet the Europeans are doing some shopping in America. On May 4th Royal Bank of Scotland (RBS), Britain's second biggest bank, snapped up Charter One, a mid-sized, mid-western bank, for $10.5 billion.

The acquisition is RBS's 26th in America since 1988, when it bought Citizens Bank, then merely the seventh-biggest bank in tiny Rhode Island. With Charter One, Citizens will be one of America's top ten by assets (see chart). According to RBS's boss, Fred Goodwin, this puts it “firmly in the survivor pool” as America's banking industry consolidates.

The high degree of concentration in most European banking markets, and political and legal obstacles to cross-border bank mergers, mean that RBS is not the only European bank looking to America for growth. In March, France's BNP Paribas acquired Community First Bankshares for $1.2 billion, adding to its already substantial presence on the west coast. ABN Amro, a Dutch bank, is already prominent in the mid-west.

The attraction, at least at first glance, is obvious. America's retail-banking market is growing faster than those in Europe. It is also more fragmented. The top ten banks in America have only 35% of deposits, according to David Golden of Mercer Oliver Wyman, a consultancy, although concentration can be much higher on a regional basis. Many European banks are flush with cash. Smith Barney, an investment bank, reckons that European banks will generate some €80 billion ($97 billion) in excess capital over the next three years. Analysts calculate that RBS is churning out some £3 billion ($5.4 billion) a year in excess funds.

There is a risk that the Europeans will squander all this cash on poor deals. Charter One looks unlikely to be RBS's last American buy. In a press conference on May 5th, Mr Goodwin noted that there are 671 banks in Illinois alone and highlighted the relatively low market share—some 40%—held by the top three banks in that state and in Michigan and Ohio, where Charter One is based. There is room to grow.

RBS's promise that it will buy back shares if takeover targets cannot be found that produce a return of at least 12% provides some comfort. So does the bank's record of successfully digesting acquisitions, such as NatWest, twice its size when a hostile bid was launched in 1999. RBS is paying less, relative to expected earnings, than either Bank of America or BNP Paribas offered for their recent purchases.

Charter One and Citizens also look like a good fit. Charter One's patch is in the mid-west, Citizens' in the north-east. Both have strong retail franchises, but Charter One's is narrower, allowing for “revenue synergies” as Citizens pushes its other retail products and small business-banking through Charter One's branches.

That said, the lack of geographical overlap—Mr Goodwin expects no branch closures—might make it hard to cut annual costs by $185m within three years, as RBS plans to do. Competition can be fierce. Many American banks are fighting for bigger slices of the retail pie by opening new branches. And all those hundreds of little Illinois banks will be snapping at Mr Goodwin's heels.

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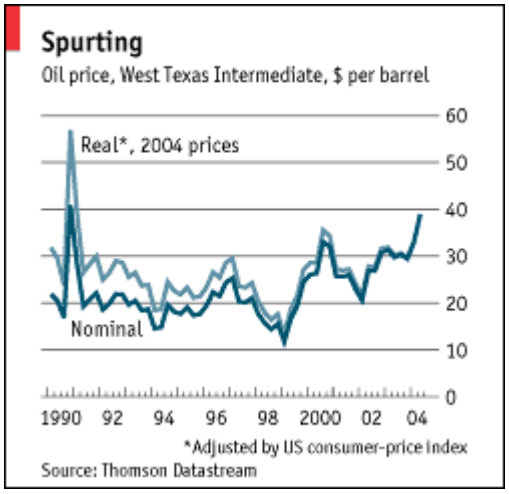
Oil prices

How much higher?

May 6th 2004
From The Economist print edition

The oil markets are jittery



ONCE again, oil is generating breathless headlines. Prices are approaching $40 a barrel—the highest since before the first Gulf war (see chart). Demand is soaring, especially in America and China. Menacingly, the Organisation of Petroleum Exporting Countries (OPEC) announced at its most recent meeting that it would cut production further. There is political strife in oil-rich Venezuela and Nigeria. And authorities, including the International Energy Agency (IEA), have given warning that high oil prices may be curbing growth.

So should the world be worried about oil? Yes—but not for the reasons above. For a start, that $40-a-barrel figure is well below historical peaks, in real terms. This suggests that the fears expressed by the IEA and others may be overblown.

It is true that demand remains strong, but inventories are not as tight as feared. A report released on May 5th by America's Department of Energy shows that the country's gasoline stocks rose by some 4m barrels last week to 204m barrels, the third consecutive weekly increase. As for supply, OPEC's bark is probably worse than its bite. Despite a declared cut in quotas of 1m barrels per day (bpd) at its latest meeting, the producers' cartel is still producing 2m bpd or more over its quotas. The group's ministers are to meet informally in late May in Amsterdam, and may increase output further as America's summer driving season gets under way.

As for politics, forget Nigeria and Venezuela. These countries often experience political turbulence. That alone rarely sets the oil price. In fact, just before the invasion of Iraq last year, the opposition in Venezuela in effect shut down the country's oil industry. That knocked over 2m bpd out of the world market. Yet oil prices did not go through the roof because Saudi Arabia, the kingpin of OPEC, made up the shortfall from its spare capacity. Because the Saudis keep over 2m bpd of production in reserve and act as the swing producer, they are often called OPEC's central bankers.

This points to the only real reason to worry: Saudi Arabia seems to be under attack from within. Last week gunmen struck at a foreign contracting firm working in the country. There have been reports that other assaults have been thwarted or are imminent. The oil world is gripped by the possibility that vital bits of Saudi oil infrastructure will be targeted. To be sure, a complete shutdown of its output would be difficult: the country has several export outlets and some redundancy in pipeline infrastructure. Oil installations are said to be heavily fortified.

Even so, many now worry that a series of attacks just might staunch the country's 8m bpd or so of daily output or disable its spare capacity. As analysts at Deutsche Bank put it in a new report called “Scary Saudi”, “Any attack, however small, would have a major impact on pricing, given that over 60% of the world's spare capacity sits in the Kingdom itself.” It once seemed unthinkable, but now seems undeniable: the central bank of oil is under attack. Watch this space.

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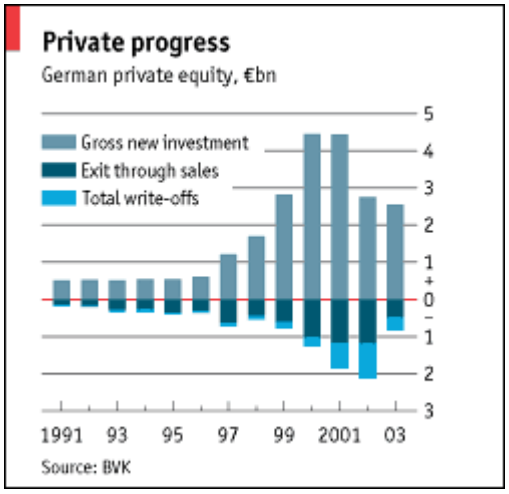
Private-equity funds in Germany

Vital but unloved

May 6th 2004 | FRANKFURT
From The Economist print edition

Yield-hungry investors are bringing change to the corporate landscape

Get article background



WITH their hard-nosed American ways, private-equity funds arouse mixed feelings in Germany. Some Germans see that they bring new capital and carry out overdue restructuring of the companies they buy. Others are quick to point to the downside: job losses and inevitable mistakes.

Thus last month *Der Spiegel*, a weekly magazine, criticised two investments by Kohlberg Kravis Roberts (KKR), an American private-equity firm (and subject of the 1990 bestseller "Barbarians at the Gate"). One investment was Tenovis, a telecom-services company bought in February 2000; the other was Demag, a crane maker purchased in mid-2002. In both cases there were management problems; lay-offs as operations were relocated abroad; and dwindling asset values as debt-service costs soared. Only at the end of last year did Tenovis manage to break even for the first time under KKR's ownership. Demag, part of a job lot of seven divisions that KKR bought from Siemens, has atrophied to a shadow of its once-illustrious self.

KKR is furious at this interpretation of events. Tenovis, as far as KKR's investors are concerned, is turning into a success. Bad management and an over-emphasis on complex new products have gone. The shedding of 500 jobs in Germany (and 100 abroad) was necessary; competitors have had to do the same. The same goes for outsourcing or relocating operations to central Europe. Demag, whose main product was factory cranes—not much demand for those in Germany now—is aiming at skylines farther east.

In truth, a company taken over by a private-equity fund is not in for a rest cure. Such funds take a high risk in the hope of high reward and they choose managers accordingly. They usually make their money from a trade sale, a management buy-out, or an initial public offering (IPO). They often make nothing. In Germany, nearly 50% of "exits" last year took the form of complete write-offs, according to the German Venture Capital Association (BVK).

Germany's economic stagnation may have put off strategic investors; but big private-equity firms are continuing to buy businesses, if not at the rate of 2000-01 (see chart). On April 19th KKR bought the lion's share of Dynamit Nobel for €2.25 billion ($2.7 billion); since 1999, it has spent more than €5 billion on German companies. Last December, Blackstone Capital Partners paid €3.1 billion for Celanese, a chemical firm. Blackstone also invested $1.2 billion in a purchase and leaseback of 51 Deutsche Bank office buildings, helping to improve the bank's capital base. Many smaller deals have also been going on. According to the BVK, private-equity funds bought into 563 German companies in 2003. They sold their stakes in 310 and wrote off investments in another 254.

Contrary to their asset-stripping image, private-equity firms usually do not hurry to get their money back, aiming to hold their investments for about five to seven years. So the absence of an IPO market in Germany for the past two years has been only a minor inconvenience. However, two of the leading candidates to end the IPO famine are owned by private-equity companies: Wincor Nixdorf, a maker of cash machines, and Auto-Teile-Unger (ATU), a car-service chain. Private-equity investors do not scoop all the proceeds of an IPO. ATU has said that only part of the money will go to Doughty Hanson, the main

investor. The rest will go to reduce debt and bolster ATU's capital.

Even so, private-equity firms are not well loved. In a recent poll of 3,500 executives, nearly half said that private equity was “out of the question” for their companies. Such investment is at odds with the traditional German concept of the company as an enduring entity in which employees as well as owners have a stake. A private-equity firm might rip out divisions, sack people and load the balance sheet with high-yield debt. When BC Partners took over Grohe, a bathroom-equipment maker, in 1999, it pared it down to an enterprise with almost no capital. But it was refinanced and recapitalised in 2003, and now BC is seeking an exit, via a trade sale or an IPO, at a price of up to €1.5 billion.

Critics see a conflict between the goals of the investor—getting out with a profit—and those of the company—continuity and long-term growth. But this is one of the many areas of continental European finance where Anglo-Saxon principles of return on capital and shareholder value may increasingly prevail.

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Economics focus

Feeding the hungry

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From The Economist print edition

In the fourth of a series of articles on the Copenhagen Consensus project*, we look at hunger and malnutrition

TELEVISED images of starving children with distended bellies have brought the problem of global hunger home to people in rich countries. Sadly, however, the problem is far deeper than an immediate lack of food, as a new paper for the Copenhagen Consensus project points out. Jere Behrman of the University of Pennsylvania, Harold Alderman of the World Bank and John Hoddinott of the International Food Policy Research Institute have examined the extent of hunger and malnutrition and four concrete proposals to ameliorate it.

Around a billion people, say the authors, are malnourished, and around a sixth of these are children. That is not only a deplorable human tragedy in its own right. It also leads to measurable economic losses—ie, further poverty. Lives are shortened, causing lost output and income. Those who survive the effects of malnutrition may be less productive, perhaps throughout their lives. Hunger also often leaves people more susceptible to disease, so that more output has to be devoted to health care.

The benefits of reducing hunger and malnutrition are many. Better-fed people are likely to contribute longer to GDP. They are even likely to have healthier babies. Infant mortality is much higher for babies with low birth-weights. According to one study, an additional pound at birth reduces mortality by 14%.

Labour productivity can be strongly influenced by malnutrition at an early age, since it can affect people's size and strength. Stunted growth—one symptom of malnutrition—often leads to lower earnings. One study in Brazil found that a 1% increase in height is associated with a 2-2.4% rise in wages.

Improved nutrition can allow children to perform better in school. Moreover, malnourished children may receive less education because they are not seen as good “investments”. Eliminating hunger, therefore, can increase the prevalence of skills needed for higher value-added jobs.

Hunger, the authors note, is not caused only by a lack of food. Other factors can play big roles. Women's education and status are associated with the quality of their children's nutrition. Diseases such as AIDS and malaria can cause or worsen hunger, in part by shortening lives of breadwinners and by causing families to fail to pass down farming skills to future generations. Poor transport infrastructure can make it difficult for food to reach the people who need it most. And then there are trade barriers—put up by rich and poor countries alike—that keep farmers mired in poverty by depriving them of export markets.

But what can be done to address hunger directly? The authors note that measuring the benefits of reducing hunger is especially hard, thanks partly to the unintended consequences of some policies. Moreover, since the costs and benefits are incurred over lifetimes, discount rates play a big role, so the authors use a range of scenarios. Overall, they caution that there is no single “magic bullet” for hunger.

Aid or agriculture?

The first course they examine is halting the ill effects of hunger at the earliest possible stage: *in utero*. Each year, around 12m infants are born weighing less than 2.5 kilograms (5.5lb), a definition of low birth-weight. This includes roughly 22% of newborns in India and 30% in Bangladesh. The benefits of raising birth-weights come from several factors: reduced infant mortality, savings on health costs and lost output due to illness, improved growth and lifetime productivity. The costs of achieving these benefits take the form of providing medicines (anti-microbial and anti-parasitic treatments), keeping

better track of mothers' health, and providing food and mineral supplements. Using a 5% discount rate, the benefits amount to some $580 for every infant who avoids a low birth-weight. Benefits exceed costs, sometimes by a wide margin, for all but one of the treatments considered.

Next, the authors investigate improving nutrition in young children. This is typically achieved by encouraging breast-feeding, and by educating mothers about “weaning foods”. The authors rely on successful policies from Latin America to draw their conclusions. The benefits, they find, are similar to those achieved from raising birth-weights, but the costs are more difficult to pinpoint. Even so, the authors think it likely that the benefits outweigh the costs.

Third is a reduction of deficiencies in key “micronutrients”, such as iodine, zinc, vitamin A and iron. The authors reckon that the benefits of increasing the uptake of these minerals, achieved through food-aid or supplements, “comfortably exceed” the costs. But they caution that the scope for taking advantage of this opportunity may be limited.

The fourth course is to improve agricultural technology—for example, by using higher-yielding crops (which are often genetically modified) and controlling pests better. Many studies show high rates of return from such improvements, and the authors argue that these returns dwarf those from the other policies they consider. One study in particular looks at the dissemination in the Philippines of Golden Rice, a genetically modified strain rich in vitamins and minerals. By some measures, that produced a benefit-to-cost ratio of between 14.3 and 79.3.

The authors see investments in technology as the most effective means of increasing the incomes of hungry people. Teaching a man to farm better, it seems, can yield far more than simply giving food or medicines away.

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* The Copenhagen Consensus project, organised by Denmark's Environmental Assessment Institute with the co-operation of *The Economist*, aims to consider, and to establish priorities among, a series of proposals for advancing global welfare. The initiative was described in our Economics focus of March 6th. That article can be read here, along with other material, including an Economics focus on migration, published this week online only. A book, “Global Crises, Global Solutions” (Amazon.co.uk), containing the full set of papers written for the project is forthcoming from Cambridge University Press.

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Entomology

Invasion of the Brood

May 6th 2004 | BLOOMINGTON, INDIANA
From The Economist print edition

AP

The 17-year cicadas are about to emerge in force

LIKE the climax of a bad sci-fi movie, a plague of biblical proportions will soon hit the eastern part of the United States. Not overgrown rabbits, nor killer tomatoes, but numberless insects. For sometime after May 10th (the exact date depends on the weather over the next few days), Brood X of the 17-year cicada will surface. The outbreak will be densest in the mid-west, around Indiana, where 3.5m insects per hectare are expected to emerge. But lesser plagues will hit places as far apart as Maryland and Missouri.

This insect storm will delight children, irritate adults (who have to clear up the mess), and ultimately do little harm—except to orchard owners, and those driven mad by the cicadas' incessant, piercing chorus. What it will also do, though, is provide an opportunity for entomologists to learn more about these curious creatures.

Clockwork insects

Though Brood X is the largest, it is only one of a number of broods of so-called periodical cicadas that emerge at intervals of either 13 or 17 years. This is the period of time that the cicada nymphs remain underground, feeding on sap from tree roots until their biological alarm-clocks go off. When that happens they all simultaneously mature, emerge, mate, lay eggs if female, and then die.

Most biologists believe that the odd lifestyle of periodical cicadas is an example of a survival strategy called “predator satiation”: the insects emerge in such prodigious quantities that predators cannot possibly eat them all. And their curious prime-numbered lifecycles may be another anti-predator strategy.

Glenn Webb, a mathematician at Vanderbilt University in Nashville, Tennessee, has demonstrated mathematically that prime-numbered lifecycles could help cicadas avoid damaging “resonances” with the two- and three-year population fluctuations of their predators. These would result in lots of predators being around in years when there were lots of prey. Dr Webb's model shows that, over a 200-year period, average predator populations during hypothetical outbreaks of 14- and 15-year cicadas would be

up to 2% higher than during outbreaks of 13- and 17-year cicadas. That may not sound like much, but it is enough to drive natural selection towards a prime-numbered life-cycle.

Only one predator—or, rather, parasite—is known to have overcome this anti-resonance strategy, by developing its own 17-year clock. *Massospora cicadina*, a fungus, lives in cicada larvae and passes between adults when they mate. But according to Gene Kritsky, an entomologist at the College of Mount St Joseph, in Cincinnati, Ohio, natural selection is working against this resonance too. In 2000, he recorded thousands of Brood X members emerging four years early—in other words, shifting to a 13-year cycle that *Massospora* is not equipped to match. Lo and behold, when Dr Kritsky examined several dozen members of the “accelerated” Brood X that emerged in 2000, he found only one infected female among them, and she had but one fungal spore. By contrast, he found from 50 to 300 spores in each cicada female from another brood that emerged on time that year in North Carolina. Brood X, it seems, is splitting up, and a new 13-year cicada population is evolving.

Meanwhile, Keith Clay, of Indiana University in Bloomington, is studying the idea that periodical-cicada broods are getting bigger over the decades. Dr Clay's reasoning is that changes made to the vegetation of the eastern United States over the past century have created a habitat that is ideal for cicadas.

Female cicadas have to be careful when they choose a tree in which to lay their eggs. Those eggs are deposited in the tree's branches, but when they hatch (which they do two weeks after being laid), the resulting larvae fall to the ground and tunnel down to the tree's roots, from which they suck their sustenance. If a female chooses poorly and the tree dies in the next 17 years, her larvae will die too. They will also do badly if the tree has old, gnarled roots, rather than young, succulent ones.

Until the arrival of European settlers, most of the area the cicadas inhabit was forest—on the face of it, a good habitat for the insects. But Dr Clay's early research suggests that “suburban savannahs” (leafy avenues, lawns with the odd sapling growing in them, and golf courses) are actually better for the insects than the forests which preceded suburbanisation. Suburban trees tend to be younger and healthier. They also have to compete less fiercely for resources than trees in dense forests. And younger trees probably have tastier roots as well. The ancient forests of pre-Columbian America would not have provided such sumptuous dining.

Dr Clay's research builds on data that generations of Indiana's entomologists have been gathering at 17-year intervals for over a century. He estimates, though, that he will need results from at least three more Brood X outbreaks to draw firm conclusions about cicadas' habitat preferences. Like his forward-looking predecessors, he will have to rely on future generations of entomologists to ensure that his labours bear fruit. Many entomologists in the American mid-west, it seems, are also now on a 17-year cycle.

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Science, visas and America

On the turning away

May 6th 2004
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Visa delays are deterring scientists from going to the United States

Get article background

AMERICA is, both proverbially and in reality, a nation of immigrants. That is particularly true of its scientific community which has, since the second world war, attracted and relied on foreign talent to help create the world's most formidable research machine. Since the country's economic and military might depend in large measure on the success of that machine, anything which diminishes this flow of talent is likely to be bad for America. And a study released on May 4th by the National Science Foundation (NSF) suggests that delays in the processing of visas since September 11th 2001 are having just that effect.

According to the report, in 2001 the number of visas issued to foreign students fell by 20% from the previous year, with further falls since then. The State Department does not track science students separately from those in other disciplines, so it is impossible to work out the precise size of the decline in their numbers. However, the report concludes that “limits to entry imposed by US national security restrictions” are contributing to a declining inflow of science talent.

Other surveys, such as one of more than 530 American universities conducted in February by a consortium of five large educational groups, point to similar conclusions. According to this survey, 60% of the research universities in America reported a decline in applications by foreign graduate students between 2003 and 2004. Nine of the institutions ranked in the top 25 nationally reported declines of over 30%. Another report, by the General Accounting Office, a congressional investigative agency, took a random sample of visa applications by science students and scientists between April and June 2003, and found that the average time required to get a visa, for those applications sent to Washington, DC, for a security review, was 67 days. And according to a statement released in late April by NAFSA, an international association that promotes student exchanges between America and the rest of the world, almost all applications in the sciences are sent to Washington, DC, for such a review.

These security reviews are one reason for the delays. Perhaps they are necessary. However, the outdated and incompatible computer systems of the various government agencies involved mean that they take far longer than they should in the vast majority of cases where there is no cause for concern.

The second reason for the delays is that virtually all applicants for non-immigrant visas are now required to attend an interview at an American consulate, overwhelming consular staff with short interviews of dubious value. Indeed, the most pronounced delays in visa processing—and the most pronounced decline in applications—has occurred for Chinese students. This suggests the delays are not directly related to concerns about terrorism.

Things may be improving. According to Maura Harty, the assistant secretary of state for consular affairs, visa-processing times have dropped significantly over the past few months. Ms Harty says that consular officials have been instructed to send students to the head of the queue, and officials from the State Department and the Department of Homeland Security are working closely with scientific bodies to improve things. The National Academies of Sciences and Engineering, and the Institute of Medicine, for example, are operating a website intended to expedite the processing of visas that have been held up. Those with a grievance can register it on this site, and the institutes will then take their complaints up with the government.

Despite all the hassle, of course, America remains the pre-eminent place in the world to do scientific research, and that is unlikely to change quickly. Nevertheless, the country might help its chances of remaining top dog if it applied some of its technical know-how to the task of processing visas more

efficiently.

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Crime prediction

Time bandits

May 6th 2004
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Prospective "hot-spot" maps show where criminals are going to be active

CRIME maps, which record the locations of incidents in order to help predict where criminals are going to strike next, are used by police throughout the world. But the past is not always a helpful guide to the future, and a team of criminologists from University College, London, led by Kate Bowers, think they can do better. A test of their new model, unveiled in this month's *British Journal of Criminology*, suggests it is 30% better at predicting crime than traditional methods.

Getty

Your time's up, matey

It is a cliché to say that crime spreads like a disease, but previous work by Dr Bowers and her colleagues found that this is exactly how crime does spread. Using statistical techniques developed to study the transmission of infections, they found that burglaries cluster in space and time in predictable ways. For example, properties within 400 metres of a burgled home, particularly those on the same side of the road, are at an increased risk of being broken into for up to two months after the initial incident.

Using these and other findings, the team created algorithms that predict where criminals will strike next, and then used those algorithms to generate "prospective hot-spot maps". These divide an area into 50-metre squares—a level of resolution chosen because 50 metres is a typical line-of-sight for a police officer in an urban area—and give a crime forecast for each square.

In their paper, Dr Bowers and her colleagues reveal the results of a study of burglaries in Merseyside, in northern England. Using historical data, they pitted their predictive modelling method against two traditional crime-mapping systems. They found that their method successfully "hindcasted" 62-80% of burglaries. The traditional techniques, by contrast, hindcasted only 46% of those incidents.

The next step is to field-test the method, to see how effective it is in the hands of real policemen and women, when the predictions would need to be updated on a shift-by-shift basis. Each shift would add the previous shift's burglaries to the historical data, and drop the most ancient incidents from the database, before re-running the model.

Although current tests have looked only at domestic break-ins, the researchers say that their method also works for car crime and theft from commercial properties. The system will be expanded to include these crimes in September.

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Decontamination

Phages are your friends

May 6th 2004
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Killing bacteria the natural way

Get article background

GRUINARD, an island located off the north-west coast of Scotland, was uninhabitable for five decades thanks to a successful biological-weapons experiment. During the second world war, the British army conducted a test involving a flock of sheep and a cluster of bombs containing anthrax spores. The army learned not only that *Bacillus anthracis* is effective at destroying sheep. It also discovered that the bacterium has the propensity to render land uninhabitable. Only half a century and 280 tonnes of formaldehyde later was Gruinard deemed safe to visit. Thankfully, a quicker, cheaper and more effective means of decontaminating soil infected with anthrax has been discovered.

In a recent experiment, Leslie Baillie of the University of Maryland demonstrated that the best way to decontaminate land infected with anthrax is to use the bacterium's own worst enemy, the bacteriophage. Phages (as they are known for short) are viruses that consume and kill bacteria. In a pilot study conducted in collaboration with America's Biological Defence Research Directorate, Dr Baillie and his colleagues successfully decontaminated soil that was infested with *Bacillus thuringiensis*, a close but harmless relative of *Bacillus anthracis*. They simply sprinkled phages liberally on the soil, and waited for them to do their job.

Bacteriophages are the most abundant organisms on the planet. They reproduce by attaching themselves to their bacterial hosts and injecting their DNA through the bacterium's cell wall. The DNA then hijacks the bacterium's biochemical apparatus to make hundreds more phages. Within half an hour, the bacterium explodes under the pressure, releasing the phage progeny into the surrounding area, where they lie dormant until their next meal comes along. Unlike antibiotics, each type of phage attacks only one type of bacterium, and since they have evolved to live off bacteria, they are harmless to people.

This is not the first time phages have been harnessed to human needs. Within a few years of their discovery at the turn of the 19th century, phage-therapy centres had opened up around the world, and phages were deployed against everything from dysentery to bubonic plague. But by the 1950s, progress in the field of antibiotics had all but replaced phage-therapy in the West. Only Russia and a few other eastern-block countries continued phage-therapy research.

This is, however, the first time that phages have been proposed as a way of decontaminating land. And although there are few sites that need to be liberated from anthrax spores, it is not exactly a coincidence that the research is happening at a time when the American government is worried about the idea of terrorists launching an anthrax attack.

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Human evolution

It figures

May 6th 2004
From The Economist print edition

In terms of fertility, geometry seems to matter

GENTLEMEN may or may not prefer blondes. But, in rich countries at least, they do seem to prefer women with hour-glass figures. There have been various ideas about why this is so. The politically correct suggest that it is mere fashion—and point to evidence that tastes are sometimes different in poorer societies. Those of a more biologically deterministic frame of mind suggest that wide hips, relative to waist size, are good for child bearing, and that large breasts deliver more milk. What has not been widely suggested is that women with classic figures are simply more fertile. But that is what Grazyna Jasienska and her colleagues at Harvard University hypothesise in the latest edition of the *Proceedings of the Royal Society*. They have found that in women of child-bearing age, the levels of two hormones known to be associated with fertility are, as it were, geometry-dependent.

Dr Jasienska measured the vital statistics of 119 women aged between 24 and 37. She also took saliva samples from them over a whole menstrual cycle. She then divided her sample into four categories—a combination of narrow or broad waist-to-hip ratio with small or large breast-size—and looked for statistically significant differences between them in the levels of progesterone and 17-b-oestrodiol, two hormones whose concentrations are known to be related to a woman's fertility.

In the case of progesterone, both groups of narrow-waisted women had high hormone levels. In that of 17-b-oestrodiol, those with narrow waists and large breasts had elevated levels—and that level was particularly high at the time of ovulation. Indeed, it was so high that Dr Jasienska estimates such women are three times as likely as the others to become pregnant on any given occasion. In evolutionary terms that makes them very desirable mates indeed.

Why a woman's shape should reflect her hormone levels is not yet clear. That is one obvious next question to investigate. Another might be to put the boot on the other foot, and ask whether men with beer guts are less potent than their hunkier fellows.

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About sponsorship

A saga of inequality

The oddness of Brazil

May 6th 2004
From The Economist print edition

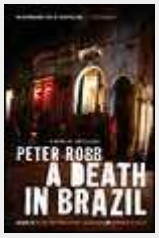
Reuters

In a country short of heroes, can Lula make a difference?

TO A northern-hemispheric eye something is missing from Brazil's public squares. Where are the monuments to liberators and heroes? São Paulo, the main metropolis, has one for the *bandeirantes*, who subdued the interior and pressed Indians into service as slaves. Tiradentes, an 18th-century rebel against imperial Portugal, is remembered by a holiday, but he was martyred for a movement as aristocratic as the system it was trying to overthrow. Brazil, which in 1822 became independent under the emperor's son and, later, republican through the machinations of the army, has avoided epics of conquest and liberation, the shapers of history elsewhere.

Inequality, rather than identity or independence, is Brazil's central saga. It begins with encounters between Portuguese adventurers and the trusting folk who peopled Brazil before their arrival, becomes more fraught with the arrival of African slaves, sparks brave but doomed rebellions and is still being played out through today's crime, corruption and poverty. Brazil's struggle is mainly with itself. This is what Peter Robb takes up in his evocative “book of omissions” about the “oddest and most thrilling country” in the Americas.

A Death in Brazil: A Book of Omissions
By Peter Robb



Henry Holt; 329 pages; $26. Bloomsbury; £16.99

Buy it at
Amazon.com
Amazon.co.uk

The failure of a knife-wielding homosexual to murder the author in an apartment in Rio de Janeiro is the omission with which he begins his braiding of experience, history and current events. Mr Robb is not one of those travellers who must see and do everything. Nor is he a journalist determined to bore down to factual bedrock. He is largely content to let Brazil happen to him, which is one of the book's charms. Some of its most revealing passages take place in the Bangüê restaurant, in the coastal city of Recife. Here we discover that a *bangüê* was the litter in which the wives of slave owners had themselves carried about and also the boiling pan in which those slaves rendered sugar-cane juice. Modern-day Brazil's taste for *bacalhau* (salt cod), we learn at the Bangüê, is culinary snobbery: only the rich can afford to eat a fish caught so far from local waters.

Mr Robb's musings rise from the table and wander into the past. They explore Brazil's ambiguous racial history, in which masters not only exploited and brutalised their slaves but routinely impregnated them, populating Brazil's half of the continent. As early as 1591 the Holy Office sent an Inquisitor to report on the sexual escapades of the Portuguese settlers in Bahia, the north-eastern focus of colonisation. He found plenty, between colonists and Tupi Indians, colonists and the first African slaves, between frustrated wives, between men and beasts. “Bahia”, Mr Robb writes, “was a riot of polymorphous perversity.” The bequest to modern Brazil is a paradox: a culture happily drenched in African origins, a hybrid population and a ruling class that is overwhelmingly white. The middle-class families in Brazil's popular television soaps—called *telenovelas*—were until recently never black. Nor were their servants, an odd omission.

Brazil's elites are still mixing power with pleasure, as Mr Robb shows through his account of the baroque corruption that surrounded Fernando Collor, the first president popularly elected after dictatorship faded in the 1980s. Propelled into office by magnates wary of popular rule and by TV Globo of the all-white *telenovelas*, Mr Collor spent three years presiding over the looting of the country by his sidekick, P.C. Farias. He was impeached in 1992 and Farias was murdered later. The killer, Mr Robb thinks, is still enjoying the impunity customarily conceded to the powerful.

Occasionally, Mr Robb's indignation gets the better of his literary poise and political judgment. He is unfairly dismissive of Brazil's previous president, Fernando Henrique Cardoso. His tone, usually that of an observant and somewhat sensual dilettante, sometimes slips into heavy-handed irony. Yet Mr Robb succeeds in putting the reader in mind of Joaquim Maria Machado de Assis, Brazil's great 19th-century novelist, a mulatto “who was valued above all for the worldly assurance and the relaxed elegance of language that he brought to a Brazilian culture that had seemed locked into a permanent cringe.”

For many the 2002 election to the presidency of Luiz Inácio Lula da Silva, who lost to Mr Collor in 1989 and Mr Cardoso in 1994 and 1998, marks a triumphant turn in the historical tide, a chance at last for the victims of Brazil's inequities to set them right. Lula, as he is universally known, was born poor in the north-east, shined shoes on the streets of São Paulo as a child and defied dictators as a union organiser. He has the makings, in other words, of the sort of inward-looking hero that Brazil can produce. Mr Robb is hoping along with the rest of Brazil, but he notices that to win the election Lula had to be stuffed into a suit and a set of orthodox economic policies and looked uncomfortable in both. The pedestals are still unclaimed.

A Death in Brazil: A Book of Omissions.
By Peter Robb.
Henry Holt; 329 pages; $26. Bloomsbury; £16.99

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French wine

Tipple trouble

May 6th 2004
From The Economist print edition

IF YOU have more money than you know what to do with, one good way to get through it is to buy expensive bottles of wine. Consumers have always known that the most prestigious and pricey wines are made by the top châteaux of Bordeaux—names such as Margaux, Lafite and Mouton-Rothschild—which are sanctified by generations of tradition. In the past 20 years, however, new names have begun to appear at the top of the Bordeaux price lists, upstarts such as Le Pin, Valandraud and Gracia. William Echikson's entertaining and opinionated portrait of the Bordeaux wine industry explains how this has happened.

Noble Rot: A Bordeaux Wine Revolution
By William Echikson

Norton; 288 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

His book, “Noble Rot”, succeeds on several levels. It is highly informative: a newcomer to Bordeaux wines seeking to understand the significance of the winemaker's terms, “right bank” and “left bank”, the “1855 classification”, *garagiste*, and so on, will find them explained in a lively and accessible way. Mr Echikson also has a journalist's eye for the entertaining anecdote and the telling detail. Finally, the book succeeds in its main goal, which is to provide a polemical (and doubtless controversial) examination of the nature of the wine industry in Bordeaux.

Its thesis is summarised by its title. In winemaking the term “noble rot” is used to describe how white grapes are allowed to rot on the vine as part of the process of making the highly prized sweet white wines of Sauternes. But for Mr Echikson it is also a description of the social and winemaking traditions of Bordeaux. His argument, in essence, is that the most famous chateaux of Bordeaux, based mainly on the left bank of the Gironde river, are often complacent and snobbish traditionalists who trade off their names. By contrast, a new group of producers, based on the right bank, is now making wines that are often superior to those of the left bank. These *garagistes*—so named because they often work out of a garage—have succeeded by dint of hard work and an openness to innovation.

At times the book's characters are a little too obviously typecast as “goodies” or “baddies”. The goodies are working-class Frenchmen who live on the right bank and whose cause is promoted by democratic Americans, who can see through the mystique of old Europe. (The book has a distinctly post-September 11th feel.) The baddies are the snobs of the left bank, in alliance with lazy and corrupt British wine critics. The chief goodie is Robert Parker, an American wine critic who has promoted many *garagistes*. “Noble Rot” does a fine job of examining the Parker phenomenon and showing how a single critic has developed such extraordinary influence. But at times Mr Echikson's portrait of Mr Parker slides into hagiography. He writes, “Like the *garagistes*, Parker isn't overwhelmed by tradition partly because he came from an ordinary middle-class family. He studied at public schools. He rode bicycles. He played sports.” Perhaps so. But even snobbish aristos have been known to ride bicycles; and “playing sports” is not necessarily proof of good character.

Still, while Mr Echikson does not disguise his likes and dislikes, he is also too honest a reporter to leave out difficult facts and dissenting opinions. He gives a full account of the controversy over the great Mr Parker's alleged conflicts of interest. More interestingly, he also airs the opinions of those who believe that Mr Parker's influence has been destructive rather than liberating. One such is Jean-Pierre Moueix, who as owner of Château Petrus, the most highly prized wine on the right bank, might be expected to be sympathetic to Mr Parker and the *garagistes*. Not so. The boss of Petrus fears that Mr Parker is discouraging finesse and refinement in favour of wines that are so powerful and alcoholic that they are more black than red. “He wants to lead us down a path to destruction,” says Mr Moueix mournfully. Fortunately, both Bordeaux and the world of wine are big enough to include fans of the Parker-school such as Mr Echikson as well as traditionalists like Mr Moueix and the aristos of the left bank. Wine appreciation, after all, is a matter of taste.

Noble Rot: A Bordeaux Wine Revolution.
By William Echikson.
Norton; 288 pages; $24.95

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About sponsorship

Phylloxera

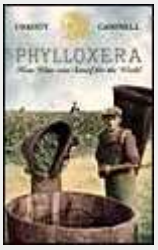
A battle lost and won

May 6th 2004
From The Economist print edition

THE extraordinary modern-day influence of Robert Parker, an American, (see article) over the fate of the French wine industry might seem blasphemous and alien to traditionalists. But, as Christy Campbell's book on *phylloxera* illustrates, French wine and the United States go back a long way. In the 19th century, alien imports from America almost destroyed—and then saved—French wine for the world.

The *phylloxera* parasite came close to wiping the French wine industry off the map. It first appeared in the Rhône valley in the 1860s and rapidly spread throughout the wine-growing regions of France, spreading destruction in its wake. Eventually botanists worked out that the aphid had been accidentally imported on vines from the United States. For almost 30 years French winegrowers battled to combat the dastardly bug while wine yields plummeted. Scientists also slugged it out, as rival schools sought to come up with a cure for *phylloxera*. The French government sponsored a valuable prize for anyone who could come up with a solution—which drew in a predictable wave of quack solutions. Eventually the real answer was found. Introduce American vines that were resistant to the bug into French soil. The United States was the source of the problem and the solution.

Phylloxera: How wine was saved for the world
By Christy Campbell



HarperCollins; 314 pages; £17.99

Buy it at
Amazon.co.uk

The story of the battle against *phylloxera* is a complicated one, featuring a cast of long-forgotten scientists, bureaucrats and winemakers. Mr Campbell has clearly toiled diligently in the archives and works hard to bring his story alive. Great figures such as Darwin and Pasteur have walk-on parts and the battle against the bug is played out against the backdrop of dramatic events like the Franco-Prussian war and the Paris Commune. The author also indulges in a little imaginative reconstruction: “Mr Marshall Pinckney Wilder sniffed the cork contemplatively. The wine-waiter's eyes flickered with alarm.” And so on. For all Mr Campbell's valiant efforts, however, his book seems unlikely to entrance the general reader. Those with an interest in the history of wine or botany or rural France might find it more rewarding, particularly if combined with a sturdy red.

Phylloxera: How wine was saved for the world.
By Christy Campbell.
HarperCollins; 314 pages; £17.99

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About sponsorship

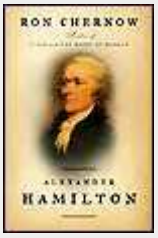
Shaper of the constitution

A maker of America

May 6th 2004
From The Economist print edition

HE GAZES out proudly from every $10 bill, and most Americans know him as their country's first treasury secretary. Most Americans also know that Alexander Hamilton's political enemy, Aaron Burr, mortally wounded him in a strange duel fought on the banks of the Hudson river. Far fewer know that Hamilton fought valiantly at the battles of Monmouth and Yorktown, established the United States customs service and coast guard, and ghost-wrote most of George Washington's farewell address.

Alexander Hamilton
By Ron Chernow



The Penguin Press; 818 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

As Ron Chernow points out in this magnificent biography, Hamilton was the boy wonder of early American politics. Born out of wedlock in the West Indies in 1755, he migrated to New York in the 1770s. Aged 22, he became Washington's principal military aide-de-camp—in effect his chief of staff—at the start of the revolutionary war. Aged 32, he served as one of New York's delegates to the constitutional convention. Under the pseudonym of “Publius” he went on to pen a majority of the “Federalist Papers”. Two years later he founded the United States Treasury Department. For the next decade he in effect led the emergent Federalist Party. He was killed when only 49.

Apart from his precocity, the only mystery surrounding Hamilton's career was his failure to seek the presidency. Mr Chernow surmises that this failure, puzzling in view of Hamilton's ambition and unbounded talent, was the result partly of timing (others, notably John Adams, were ahead of him in the presidential queue) and partly of Hamilton's loftiness and refusal ever “to master the smooth restraint of a mature politician”. He was the Coriolanus of his age, incapable of wheedling, pleading and showing his wounds. Mr Chernow suggests there may also have been a baser reason. If he had decided to go for the top job, blackmailers would probably have revealed details of a sordid love affair.

Although he never rose above cabinet rank, Hamilton's contributions to the making of modern America were immense—far greater than those of most men who did become president. He helped write the constitution. He played a crucial role in its ratification. Above all, more than anyone else he was the founding father of the American state. He appointed key officials; he built a formidable administrative machine; he established the credit of the federal government; he promoted American manufacturers; and he acted, even after leaving office, as President Washington's principal policy adviser.

Before Hamilton, there existed in the United States a nascent political system. After him, there existed a functioning system of government. Hamilton's insistence on building a strong central government, and his determination to promote the interests of bankers and industrialists, inevitably brought him into conflict with his political nemesis, the brilliant but romantic and woolly minded Thomas Jefferson. Mr Chernow tries to be fair between Jefferson and Hamilton—at one point he laughingly refers to Hamilton as “this inspired windbag”—but there is no doubt whose side he is on.

Alexander Hamilton.
By Ron Chernow.
The Penguin Press; 818 pages; $35

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About sponsorship

Films from Asia

The sour smell of success

May 6th 2004 | UDINE
From The Economist print edition

Testing the limits of good taste

WHY go east to see Asian movies when the pick of the bunch is available at a festival mounted every year in Udine, Italy? From a broad selection of films from Japan, Hong Kong, South Korea and the Philippines, two stood out at Udine this year.

Good comedies are rare, so Riley Ip's “Elixir of Love”, a costume drama with an unusual twist, is especially welcome. The emperor's daughter has been born with a terrible affliction, to which palace sawbones have appended the acronym SARS—or, to give it its full name, Severe Atypical Reeking Syndrome. Yes, but keep it dark, the princess pongs. This becomes a real problem when she reaches marriageable age. If you like scatological humour, prepare to guffaw now. Mr Ip pulls off the double trick of being funny and moving at the same time. Body odour is no joke for those afflicted by it. The film resembles “There's Something About Mary” as a test of the limits of good taste. Miriam Yeung, Hong Kong's foremost comedienne, brilliantly plays both the unfortunate princess and a fishmonger's daughter, who is no slouch herself in the SARS stakes.

Rather subtler is “Green Tea”, from China's Zhang Yuan. Mr Zhang has a worldwide reputation but until recently had to work on the fringes of the Chinese film industry because the government disapproved of his work: “Mama”, for example, a film about Chinese mothers and mental illness. His new film opens up modern China in an apparently innocuous study of computer dating starring two of the best-known actors in Chinese cinema, Jiang Wen and Zhao Wei, who plays two roles. Or does she?

Mr Jiang picks up a frosty academic in hope of an easy conquest. But there's a problem. She is the image of a sexy pianist who works in a nightclub and is the woman he really fancies. Is she the same woman as the academic or a lookalike? Mr Jiang never finds out, and the director makes sure we don't either, search though we may for clues.

“Green Tea” (the title refers to fortune-telling) is an innovation in Chinese film-making by focusing on the country's newly rich city-dwellers, rather than on the peasants slaving in the countryside, a feature in movies made, it seems, only yesterday. Mr Zhang, who is 40, belongs to a generation that has moved on from the pioneers who made such films as “Yellow Earth” and “Red Sorghum”. “Green Tea” feels at home in the 21st century. Mr Zhang does himself a favour by hiring as cameraman Christopher Doyle, an Australian who lives in Beijing and who helped shoot the highly regarded “In the Mood for Love”, directed by Hong Kong's Wong Kar-Wai. “Green Tea” looks unlike any Chinese film you may have seen. It is very personal, using huge close-ups in which only the eyes are shown. And those eyes tell what words never could.

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The deadly sins

Make that six

May 6th 2004
From The Economist print edition

“KANT calls marriage a contract for each [partner] to use the other's genitals,” writes Simon Blackburn, “so it is lucky that he never tried it.” Mr Blackburn, a professor at Cambridge, has the robust dry wit that has typified the best British philosophers since Hume and disconcerted most German ones since Hegel. His way with words has served him well. He is now probably the best selling populariser of his trade in English, thanks to his short primers, “Think” (1999) and “Being Good” (2001). His latest slim volume, replete with 16 glossy illustrations, not all of them decent, seems on the face of it to have more to do with Being Bad.

Lust
By Simon Blackburn

Oxford University Press; 151 pages; $17.95 and £9.99

Buy it at
Amazon.com
Amazon.co.uk

But appearances deceive. “Lust” is the third book in a series on the seven “deadly sins” which began life as a course by seven lecturers at the New York Public Library, that well-known den of vice. In the course of investigating lust, Mr Blackburn is lured irresistibly to the conclusion that there is nothing at all wrong with it. With the caveat that the word is often cheatingly used in such a way as to make lust wicked merely by definition (the Oxford English Dictionary calls it a “degrading animal passion”), it is hard not to be seduced by Mr Blackburn's sweet reasonableness.

So what is lust? Mr Blackburn starts by stripping it naked. After seven pages of analysis by counter-example and refinement, he defines it as an enthusiastic desire, which infuses the body, for sexual activity and its pleasures for their own sake. The subsequent tour of attitudes to this desire in western thought and literature is engagingly illustrated and masterfully argued, especially when it takes on the view that sex ought to be reserved for reproduction and not enjoyed for its own sake—an easy target, as Mr Blackburn demonstrates, but still a necessary one.

The author is no libertine, though. He does not go nearly as far as Epicurus and his populariser, Lucretius, who held that lust is superior to love. The Epicureans feared love as a kind of madness that overcomes the rational soul—in the fourth book of his “De Rerum Natura”, Lucretius gives a marvellously dyspeptic account of romance that is convincing if you have just fallen out of love but unpersuasive if you are falling in. Indulging in plenty of sex for its own sake, the Epicureans argued, is an effective remedy for the insanity of love. (This rationalisation for promiscuity is curiously little-used by the sex industry.)

Mr Blackburn's own sympathies lie with the account of lust given by Hobbes. The discussion is subtle, but to cut to the chase—as lust is wont to do—the essence of Hobbes's view is that the pleasure of lust is not only sensual but also a “delight of the mind”, because it consists of “two appetites together, to please, and to be pleased”. As Mr Blackburn puts it, lust involves a “pure mutuality”, a “joint symphony of pleasure and response”. Alas, it will probably take more than a slim volume of sweet reason to win over lust's enemies. Guilt about sex seems to run too deep for that.

Lust.
By Simon Blackburn.
Oxford University Press; 151 pages; $17.95 and £9.99

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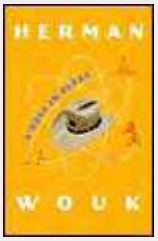
New fiction

The boson affair

May 6th 2004
From The Economist print edition

HERMAN WOUK'S 12th novel is a deliciously silly confection that combines astrophysics with back-room Washington politics and a touch of Hollywood. Mr Wouk takes as his starting point the true story of the "superconducting super collider", a particle accelerator that was built in Waxahachie, Texas, in the 1980s. Its purpose was to confirm the existence of a particle called the Higgs boson, which would have been an important achievement had it happened. But in 1993 Congress decided the costly project was going nowhere and pulled the plug.

A Hole in Texas
By Herman Wouk



Little, Brown; 278 pages; $25

Buy it at
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Amazon.co.uk

Guy Carpenter, the shock-headed hero of the novel, is supposed to be one of the scientists who worked on the project. Ten years have passed since the super collider was shut down. Guy is now happily married with two kids and a good job doing space research in California. But the Waxahachie debacle comes back to haunt him when the news breaks that the existence of the Higgs boson has, after all, been established; not by the Americans but by the Chinese.

Newspapers run alarming articles on the implications of the discovery for national security. A congressional hearing is convened. But what bothers Guy particularly is that the leading researcher on the Chinese team is a former girlfriend of his, Wen Mei Lee, or Wendy as he knew her years ago when she was a foxy young student doing her doctorate at Cornell.

Guy finds himself hounded from all sides. A reporter has got wind of his relationship with Wen Mei Lee. A leggy congresswoman has enlisted his expertise to make some sense of the situation. Hollywood is desperate to get him on board as scientific consultant on a preposterous "boson bomb" epic. Can Guy keep his life from falling apart as the media tidal wave comes crashing down around him?

Mr Wouk is known for the thoroughness of his research and the old-fashioned skill with which he spins a yarn. "A Hole in Texas" is no exception. Even readers with the haziest sense of recent developments in subatomic physics or the workings of congressional subcommittees will be enlightened as well as entertained.

A Hole in Texas.
By Herman Wouk.
Little, Brown; 278 pages; $25

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Obituary

Thom Gunn

May 6th 2004
From The Economist print edition

Marc Geller

Thomson William Gunn, poet and rebel, died on April 25th, aged 74

SOMETIME in the late 1950s, in northern California, Thom Gunn came across a roaring company of bikers in their leather gear. The sight was not unusual in those days, but it was strange for that particular place, in open fields that had been haunted until then only by blue jays and swallows. Mr Gunn began to muse on the natural instinct of the birds and the crowd-compulsion of the bikers, both flocking noisily, and wrote what was to become his best-known poem, “On the Move”:

> Much that is natural, to the will must yield.
> Men manufacture both machine and soul
> And use what they imperfectly control
> To dare a future from the taken routes.

For some readers, however, these verses were less about instinct and will than about the thrill of leather, steel and muscle. By moving from England to America in 1954 to live with his male lover and to explore the California bath-house culture, Mr Gunn had acknowledged himself a homosexual, and he was to become perhaps the best gay poet writing in English. But it was many years before he dared to come out in his poetry. Had he done so, in the 1950s, he would never have got his teaching job at Berkeley.

Not merely the need for a job restrained him, but the forms and traditions of poetry itself. Mr Gunn, a fine and deliberate wordsmith, revered the rhythms of Spenser, Milton and Dante all through his writing career. Accordingly he also clung to the themes beloved by older poets, including heterosexual love. His first book of verse, “Fighting Terms”, published just after his graduation from Cambridge in 1953, opened with a battle poem based on Homer's “Iliad”. It then moved on, via homage to Donne (“To his Cynical Mistress”) to coy games between men and women:

> Even in bed I pose: desire may grow
> More circumstantial and less circumspect
> Each night, but an acute girl would suspect
> That my self is not like my body, bare.

The book also contained a poem to his lover, Mike Kitay. It was carefully disguised not only in Elizabethan stanzas but in an Elizabethan metaphor, of tamer and hawk:

Even in flight above
I am no longer free:
You seeled me with your love,
I am blind to other birds—
The habit of your words
Has hooded me.

Mr Gunn's self was not laid bare for a long time. He left England hoping, in his words, to be someone new. The English always wanted to categorise him, lumping him with Kingsley Amis and Philip Larkin as a "Movement" poet (though he had never met Larkin), and anthologising him with Ted Hughes because he was young and angry, though he had nothing of Mr Hughes's primal violence. In fact, he was more often lyrical and tender: instead of scraggy crows, soft-footed cats.

America, however, quickly became a succession of masks and intense experimentation. In 1966 he gave up teaching, telling colleagues that he wished to devote himself to poetry. On the contrary he wanted to take drugs, pick up lovers and listen to rock concerts in the park. In his verse, he took on the voices of drop-outs and speed-sellers. Formal metre ("filtering the infinite through the grid of the finite", as he once put it) remained a cover for him; even on LSD, he could still scan.

Landscape of acid:
Where on fern and mound
The lights fragmented by the roofing bough
Throbbed outward, joining over broken ground
To one long dazzling burst; as even now
Horn closes over horn into one sound.

As he grew older he relaxed, as poets tend to. He wrote a little more about his past: a childhood on the North Kent coast, lingering in the marshy graveyard of Dickens's "Great Expectations", and a bookish Hampstead boyhood, lying on Parliament Hill with Lamartine's poems. In 2000 he managed at last to commemorate his mother's suicide, which he had stumbled on at 15, by using the third person and "withdrawing" the first.

He also relaxed into his homosexuality, now serenely domesticated, and into free verse, shocking his readers far more with that. "Jack Straw's Castle" (1976), a collection named after a gay cruising spot on Hampstead Heath, seemed to be a celebration of exuberantly broken rules. But times changed. As the AIDS epidemic began to kill his San Francisco friends in the 1980s, Mr Gunn turned back instinctively to formal metre to mourn them, as in "The Man with Night Sweats":

I wake up cold, I who
Prospered through dreams of heat
Wake to their residue,
Sweat, and a clinging sheet.

As his friends died around him, Mr Gunn often questioned why he had been spared. Their deaths, he wrote, "have left me less defined/It was their pulsing presence made me clear." Nor could he feel anything but emptiness beyond them. "On the Move" had ended with lines reminiscent of T.S. Eliot:

At worst, one is in motion; and at best,
Reaching no absolute, in which to rest,
One is always nearer by not keeping still.

"I'm not sure that the last line means anything," he told an interviewer in 1999. "Nearer to what?"

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Overview

May 6th 2004
From The Economist print edition

As expected, **America's** Federal Reserve left interest rates unchanged at 1.0%. **Britain's** central bank also met expectations, but by raising its base rate a quarter point, to 4.25%.

America's ISM index of manufacturing activity fell slightly in April to 62.4. Readings over 60, however, indicate strong growth. The ISM service-industry index rose to 68.4 in April from 65.8 in March, better than expected.

Spain's economy seems hardly to have suffered from the terrorist attacks in March. GDP rose by 0.6% during the first quarter, and by 2.8% in the year to the first quarter. Unemployment held steady in March at 11.1%.

Producer prices in the **euro area** rose by 0.4% in the year to March, down from a rate of 2.4% a year earlier.

Unemployment rose in **Germany** to 10.5% in April, up from 10.4% in March.

In **Japan**, however, unemployment fell to 4.7% in March, from 5.0% in February.

Consumer prices rose in **Switzerland** by 0.5% in the year to April, compared with a decline of 0.1% in the year to March.

Oil prices rose to nearly $40 a barrel, the highest level in more than 13 years.

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Output, demand and jobs

May 6th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.9	+ 3.1	– 0.1	Q3	+ 7.7	Q1	5.6	Mar	6.2
Austria	+ 0.8	Q4	+ 0.4	+ 1.6	+ 2.0	+ 3.1	Jan	– 1.0	Feb	4.5	Apr	4.3
Belgium	+ 1.9	Q1	+ 2.4	+ 1.9	+ 1.9	+ 1.2	Feb	– 0.9	Feb	12.4	Apr†	11.6
Britain	+ 3.0	Q1	+ 2.6	+ 3.2	+ 2.7	– 1.3	Feb	+ 6.4	Mar	4.8	Feb††	5.1
Canada	+ 1.6	Q4	+ 3.8	+ 2.7	+ 3.3	+ 0.8	Feb	+ 1.1	Jan	7.5	Mar	7.4
Denmark	+ 1.0	Q4	+ 2.4	+ 1.9	+ 2.2	– 1.0	Feb	+ 5.3	Feb	6.4	Mar	5.8
France	+ 1.2	Q4	+ 2.7	+ 1.8	+ 2.1	+ 0.9	Feb	+ 2.9	Mar	9.8	Mar	9.6
Germany	+ 0.2	Q4	+ 0.9	+ 1.4	+ 1.6	+ 1.8	Feb	– 0.7	Mar	10.5	Apr§	10.7
Italy	+ 0.1	Q4	nil	+ 1.0	+ 1.7	+ 0.2	Feb	– 2.1	Feb	8.5	Jan	8.9
Japan	+ 3.4	Q4	+ 6.4	+ 3.3	+ 2.0	+ 7.7	Mar	+ 0.9	Feb	4.7	Mar	5.4
Netherlands	– 0.4	Q4	+ 1.7	+ 0.8	+ 1.6	– 2.0	Feb	– 4.6	Feb‡	6.4	Mar**	4.7
Spain	+ 2.8	Q1	+ 2.4	+ 2.8	+ 2.9	+ 2.0	Feb	+ 4.5	Mar	11.1	Mar	11.4
Sweden	+ 1.9	Q4	+ 2.2	+ 2.4	+ 2.4	+ 6.2	Feb	+ 5.3	Mar	5.8	Mar†	4.6
Switzerland	nil	Q4	+ 1.8	+ 1.6	+ 1.8	+ 1.7	Q4	+ 3.7	Feb	4.1	Mar†	3.6
United States	+ 4.9	Q1	+ 4.2	+ 4.7	+ 3.6	+ 3.4	Mar	+ 9.2	Mar	5.7	Mar	5.8
Euro area	+ 0.6	Q4	+ 1.2	+ 1.6	+ 2.0	+ 0.6	Feb	+ 0.9	Mar	8.8	Mar	8.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q4	+ 1.1	na	na	– 3.2	Feb	+ 3.6	Feb	9.5	Mar†	9.9
Greece	+ 5.0	Q4	na	na	na	+ 2.5	Feb	+ 6.4	Feb	na		na
Iceland	+ 4.9	Q4	na	na	na	– 0.3	2002	na		3.6	Feb†	4.1
Ireland	+ 2.7	Q4	na	na	na	+ 3.4	Feb	+ 2.6	Feb	4.6	Mar	4.3
Luxembourg	+ 1.3	2002	na	na	na	– 1.2	Dec	+ 3.9	Dec	4.4	Feb	3.8
New Zealand	+ 3.2	Q4	+ 2.4	na	na	+ 3.2	Q4	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.5	Q4	+ 2.4	na	na	+ 0.2	Feb	+ 7.6	Mar	4.2	Q4	3.7
Portugal	– 0.5	Q4	– 1.0	na	na	– 4.5	Feb	+ 2.7	Mar	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 2.9% in Mar. §EU harmonised rate 9.3% in Mar. **Jan-Mar.

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Prices and wages

May 6th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.0	Q1	+ 3.4	+ 2.2	+ 2.5	– 1.1	Q1	+ 3.0	+ 5.9	Q4	+ 3.9
Austria	+ 1.6	Mar	+ 1.8	+ 1.3	+ 1.4	+ 3.0	Mar	+ 2.0	+ 2.1	Mar	+ 2.2
Belgium	+ 1.9	Apr	+ 1.5	+ 1.4	+ 1.5	+ 2.2	Mar	+ 0.8	+ 1.9	Q1	+ 2.4
Britain	+ 1.1	Mar*	+ 1.6	+ 1.5	+ 1.8	+ 1.3	Mar	+ 2.1	+ 3.8	Feb	+ 3.1
Canada	+ 0.7	Mar	+ 4.3	+ 1.6	+ 2.0	– 2.5	Feb	+ 2.8	+ 3.1	Feb	+ 2.2
Denmark	+ 0.7	Mar	+ 2.9	+ 1.4	+ 2.0	+ 0.3	Mar	+ 0.7	+ 3.7	Q4	+ 3.9
France	+ 1.7	Mar	+ 2.6	+ 1.9	+ 1.6	+ 0.1	Mar	+ 2.1	+ 2.7	Q4	+ 3.5
Germany	+ 1.6	Apr	+ 1.0	+ 1.2	+ 1.1	+ 0.8	Mar	+ 1.3	+ 1.9	Feb	+ 2.4
Italy	+ 2.3	Apr	+ 2.7	+ 2.2	+ 2.1	+ 0.6	Mar	+ 2.8	+ 2.8	Mar	+ 1.7
Japan	– 0.1	Mar	– 0.1	– 0.2	nil	+ 0.2	Mar	– 0.8	+ 2.0	Feb	+ 1.9
Netherlands	+ 1.4	Apr	+ 2.1	+ 1.3	+ 1.3	+ 0.6	Dec	+ 4.2	+ 1.8	Mar	+ 3.2
Spain	+ 2.1	Mar	+ 3.7	+ 2.3	+ 2.4	+ 0.8	Mar	+ 3.0	+ 3.3	Q4	+ 3.9
Sweden	– 0.1	Mar	+ 3.1	+ 0.8	+ 1.6	– 1.4	Mar	+ 0.6	+ 2.7	Dec	+ 4.0
Switzerland	+ 0.5	Apr	+ 0.7	+ 0.4	+ 0.8	– 0.1	Mar	+ 0.3	+ 1.8	2002	+ 2.5
United States	+ 1.7	Mar	+ 3.0	+ 1.9	+ 1.8	+ 2.1	Feb	+ 3.3	+ 1.8	Mar	+ 3.2
Euro area	+ 1.7	Mar	+ 2.4	+ 1.7	+ 1.6	+ 0.4	Mar	+ 2.4	+ 2.5	Q4	+ 3.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.5	Mar	+ 1.6	na	na	– 0.6	Mar	+ 1.3	+ 3.7	Q4	+ 4.1
Greece	+ 2.7	Mar	+ 4.1	na	na	+ 1.4	Feb	+ 2.7	na		na
Iceland	+ 2.2	Apr	+ 2.3	na	na	+ 2.7	Apr	+ 3.2	+ 3.3	Feb	+ 5.6
Ireland	+ 1.3	Mar	+ 4.9	na	na	– 5.1	Mar	– 7.1	+ 6.1	Q4	+ 6.4
Luxembourg	+ 1.8	Mar	+ 2.7	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.5	Q1	+ 2.5	na	na	– 0.1	Q4	– 1.4	+ 2.3	Q4	+ 2.1
Norway	– 0.6	Mar	+ 3.7	na	na	– 1.1	Mar	+ 9.8	+ 3.9	Q4	+ 5.2
Portugal	+ 2.3	Mar	+ 3.9	na	na	+ 0.3	Mar	+ 2.1	+ 0.8	Feb	– 0.4

*New series. RPI inflation rate in March: 2.6%.

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Economic forecasts

May 6th 2004
From The Economist print edition

The Economist poll of forecasters, May averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	3.2/4.3	2.6/3.7	3.9	3.1	2.2	2.5 (2.6)	–5.2	–4.5 (–4.6)
Austria	1.3/2.0	1.7/2.3	1.6	2.0	1.3 (1.2)	1.4 (1.3)	–0.3	–0.6 (–0.5)
Belgium	1.7/2.1	1.3/2.6	1.9 (1.8)	1.9 (2.0)	1.4	1.5	3.7 (4.2)	3.8 (4.1)
Britain	2.8/3.6	2.0/3.3	3.2	2.7 (2.6)	1.5	1.8	–2.5	–2.5 (–2.6)
Canada	1.8/3.3	2.6/4.0	2.7 (2.8)	3.3	1.6 (1.5)	2.0	1.7 (1.6)	1.1
Denmark	1.2/2.3	1.4/2.8	1.9 (1.8)	2.2	1.4	2.0	2.5 (2.7)	2.4 (2.7)
France	1.5/2.1	1.4/2.7	1.8	2.1	1.9 (1.8)	1.6	1.0 (1.2)	0.9 (1.0)
Germany	1.0/1.8	1.0/2.0	1.4	1.6 (1.7)	1.2 (1.1)	1.1	2.4	2.4 (2.3)
Italy	0.7/1.4	0.9/2.4	1.0 (1.1)	1.7 (1.8)	2.2 (2.1)	2.1	–0.9(–1.0)	–1.0
Japan	2.9/3.8	1.0/3.6	3.3 (3.2)	2.0	–0.2	nil	3.2	3.2
Netherlands	0.2/1.4	0.9/2.4	0.8 (0.9)	1.6 (1.7)	1.3 (1.4)	1.3	2.3 (2.8)	2.5 (3.0)
Spain	2.4/3.1	2.5/3.3	2.8	2.9	2.3	2.4	–2.9(–2.8)	–2.9 (–2.7)
Sweden	1.8/2.8	1.6/3.5	2.4	2.4	0.8 (0.9)	1.6 (1.7)	5.6	5.4 (5.3)
Switzerland	0.8/2.1	1.3/2.2	1.6	1.8	0.4	0.8	10.3	10.1
United States	3.9/5.5	3.2/4.5	4.7	3.6	1.9 (1.8)	1.8	–5.1	–5.0
Euro area	1.2/2.0	1.4/2.6	1.6	2.0	1.7	1.6	0.5	0.4

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecast, where different, is shown in brackets. Our panel has again lifted its forecast for Japan's GDP growth this year, to 3.3%; a year ago it expected growth of only 0.8%. The United States is still expected to be the star performer, with growth of 4.7% this year and 3.6% in 2005. Even our most pessimistic economist expects growth of 3.9% and 3.2% respectively. In contrast, the euro area is tipped to grow by only 1.6% this year and by 2.0% in 2005. The forecasters have lifted their average forecast for consumer-price inflation in America to 1.9% in 2004.

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Money and interest rates

May 6th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (May 5th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.0	+13.9	Mar	5.59	4.77	5.36	5.96	5.13	6.76
Britain	+ 7.1	+ 7.7	Mar	4.51	3.56	4.51	4.94	4.25	5.76
Canada	+11.6	+ 8.9	Mar	1.94	3.19	2.70	4.92	4.90	6.13
Denmark	+ 8.1	+10.6	Mar	2.19	2.70	2.47	4.29	4.17	5.43
Japan	+ 4.1	+ 1.9	Mar	0.02	0.02	0.15	1.54	0.60	1.62
Sweden	+ 0.5	+ 2.2	Mar	2.01	3.43	2.86	4.51	4.45	2.97
Switzerland	+11.6	+ 5.1	Mar	0.26	0.29	1.07	2.61	2.39	2.44
United States	+ 7.5	+ 4.5	Mar	1.08	1.16	2.32	4.57	3.69	6.03
Euro area†	+11.4	+ 6.3	Mar	2.07	2.48	2.37	4.11	3.93	3.90

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.22%, Japan No. 259 1.49%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

May 6th 2004
From The Economist print edition

1995=100

	Apr 27th	May 4th*	% change on one month	% change on one year
Dollar index				
All items	98.3	99.6	– 0.4	+32.0
Food	97.1	99.8	+ 0.9	+27.9
Industrials				
All	99.9	99.3	– 2.2	+37.9
Nfa†	97.7	98.0	+ 2.5	+31.9
Metals	101.8	100.3	– 5.8	+43.4
Sterling index				
All items	86.6	87.6	+ 1.7	+18.8
Euro index				
All items	108.6	108.4	– 0.6	+23.9
Yen index				
All items	114.7	116.4	+ 3.0	+22.9
Gold				
$ per oz	396.25	391.75	– 6.2	+14.2
West Texas Intermediate				
$ per barrel	37.49	38.92	+11.5	+51.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

May 6th 2004
From The Economist print edition

Market indices

	May 5th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,413.7	3,462.9	3,274.9	– 1.1	– 1.4	+ 3.3	+ 0.2
Austria (ATX)	1,950.8	1,985.9	1,568.9	– 0.7	– 1.8	+26.3	+21.4
Belgium (Bel 20)	2,458.8	2,517.3	2,244.2	– 0.2	–33.2	+ 9.6	+ 5.3
Britain (FTSE 100)	4,569.5	4,575.7	4,309.4	+ 1.0	–34.1	+ 2.1	+ 2.0
Canada (Toronto Composite)	8,457.3	8,898.8	8,220.9	+ 2.5	–25.7	+ 2.9	– 3.3
Denmark (KBX)	229.9	241.3	219.0	+ 0.4	–23.8	+ 7.6	+ 3.5
France (SBF 250)	2,540.3	2,594.4	2,411.5	– 0.3	–42.1	+ 5.3	+ 1.3
(CAC 40)	3,729.4	3,811.4	3,518.5	+ 0.2	–46.1	+ 4.8	+ 0.8
Germany (DAX)	4,022.1	4,151.8	3,726.1	– 1.1	–50.1	+ 1.4	– 2.5
Italy (BCI)	1,323.5	1,340.3	1,239.5	– 0.8	–39.4	+ 5.3	+ 1.2
Japan (Nikkei 225)	11,761.8§	12,163.9	10,365.4	– 2.0	–69.8	+10.2	+ 8.6
(Topix)	1,186.3§	1,217.9	1,022.6	– 1.7	–58.9	+13.7	+12.1
Netherlands (AEX)	345.6	364.8	326.3	– 0.7	–50.7	+ 2.4	– 1.6
Spain (Madrid SE)	864.0	881.7	808.3	– 0.1	–24.6	+ 6.9	+ 2.8
Sweden (Affarsvarlden Gen)	203.9	218.1	188.5	– 1.1	–49.1	+ 8.3	+ 3.6
Switzerland (Swiss Market)	5,891.2	5,934.4	5,469.0	+ 1.7	–30.0	+ 7.4	+ 3.9
United States (DJIA)	10,311.0	10,737.7	10,048.2	– 0.3	–12.0	– 1.4	– 1.4
(S&P 500)	1,121.5	1,157.8	1,091.3	– 0.1	–26.6	+ 0.9	+ 0.9
(NASDAQ Comp)	1,957.3	2,153.8	1,901.8	– 1.6	–61.2	– 2.3	– 2.3
Europe (FTSE Eurotop 300)*	1,008.5	1,026.2	957.9	– 0.2	–40.9	+ 5.3	+ 1.2
Euro area (FTSE Ebloc 100)*	855.4	888.3	815.4	– 0.5	–44.8	+ 2.9	– 1.1
World (MSCI)†	1,053.9	1,085.8	1,025.9	+ 0.5	–27.3	+ 1.7	+ 1.7
World bond market (Citigroup)‡	594.6	619.5	586.4	+ 1.4	– 4.0	– 1.5	– 1.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Citigroup World Government Bond Index, total return, in $ terms. §April 30th.

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Trade, exchange rates and budgets

May 6th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 May 5th	year ago	Currency units per $ May 5th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0	Mar	− 30.0	Q4	− 5.2	− 4.5	86.7	79.8	1.37	1.57	2.45	1.66	1.26	0.5
Austria	− 1.1	Jan	− 1.9	Feb	− 0.3	− 0.6	103.4§	101.9	0.82	0.88	1.48	–	0.76	-1.2
Belgium	+ 20.8	Feb	+ 8.0	Dec	+ 3.7	+ 3.8	103.6§	101.8	0.82	0.88	1.48	–	0.76	nil
Britain	− 82.4	Feb	− 30.8	Q4	− 2.5	− 2.5	103.7	97.3	0.56	0.63	–	0.68	0.51	-2.9
Canada	+ 44.4	Feb	+ 18.5	Q4	+ 1.7	+ 1.1	84.0	83.4	1.37	1.40	2.46	1.67	1.26	0.7
Denmark	+ 9.3	Feb	+ 6.3	Feb	+ 2.5	+ 2.4	106.2	106.2	6.14	6.54	11.0	7.44	5.65	1.0
France	+ 2.9	Feb	+ 11.4	Feb	+ 1.0	+ 0.9	107.3§	104.9	0.82	0.88	1.48	–	0.76	-3.7
Germany	+156.7	Feb	+ 55.8	Feb	+ 2.4	+ 2.4	105.1§	102.2	0.82	0.88	1.48	–	0.76	-3.7
Italy	+ 0.7	Feb	− 19.0	Feb	− 0.9	− 1.0	76.5§	74.8	0.82	0.88	1.48	–	0.76	-2.9
Japan	+116.1	Mar	+149.9	Feb	+ 3.2	+ 3.2	136.1	131.4	109	116	194	132	–	-6.8
Netherlands	+ 32.0	Feb	+ 14.4	Q4	+ 2.3	+ 2.5	103.2§	101.1	0.82	0.88	1.48	–	0.76	-2.5
Spain	− 54.8	Feb	− 23.8	Jan	− 2.9	− 2.9	77.5§	76.2	0.82	0.88	1.48	–	0.76	0.2
Sweden	+ 20.7	Mar	+ 18.9	Q4	+ 5.6	+ 5.4	81.2	81.0	7.52	8.01	13.5	9.12	6.92	0.5
Switzerland	+ 7.7	Mar	+ 32.9	Q4	+10.3	+10.1	111.8	114.7	1.28	1.33	2.29	1.55	1.18	na
United States	−556.5	Feb	−540.9	Q4	− 5.1	− 5.0	97.8	103.8	–	–	1.79	1.21	0.92	-5.1
Euro area	+ 88.2	Feb	+ 37.2	Feb	+ 0.5	+ 0.4	90.4	89.9	0.82	0.88	1.48	–	0.76	-2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.2	Feb	+ 10.4	Feb	na	na	82.7§	80.7	0.82	0.88	1.47	–	0.75	1.9
Greece	− 26.3	Feb	− 11.2	Feb	na	na	59.9§	58.9	0.82	0.88	1.47	–	0.75	-1.6
Iceland	− 0.3	Mar	− 0.6	Q4	na	na	93.1**	94.2	73.2	73.7	131	88.8	67.4	0.2
Ireland	+ 41.0	Feb	− 3.0	Q4	na	na	95.2§	92.4	0.82	0.88	1.47	–	0.75	-1.3
Luxembourg	− 3.6	Feb	+ 2.5	Q4	na	na	103.6§	101.8	0.82	0.88	1.47	–	0.75	-1.8
New Zealand	− 2.3	Mar	− 3.5	Q4	na	na	101.0	96.6	1.57	1.77	2.81	1.90	1.44	2.2
Norway	+ 27.9	Mar	+ 29.7	Feb	na	na	98.4	102.4	6.74	6.92	12.1	8.17	6.20	9.7
Portugal	− 13.9	Jan	− 8.1	Feb	na	na	94.7**	91.7	0.82	0.88	1.47	–	0.75	-3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, February average. ‡OECD forecast.
**IMF, December average.

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General-government structural budget balance

May 6th 2004
From The Economist print edition

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Overview

May 6th 2004
From The Economist print edition

India's inflation rate is falling. Consumer prices rose by 3.5% in the year to March, down from 4.1% in the year to February.

Driven by rising prices for food and utility charges, **Indonesia's** consumer prices rose by 5.9% in the year to April.

Taiwan's stockmarket fell by 11% in the week to May 5th, thanks in part to worries that China's authorities may try to slow the mainland's economy.

Boosted by strong farm exports, **Brazil's** trade surplus rose to $27.4 billion in the year to April.

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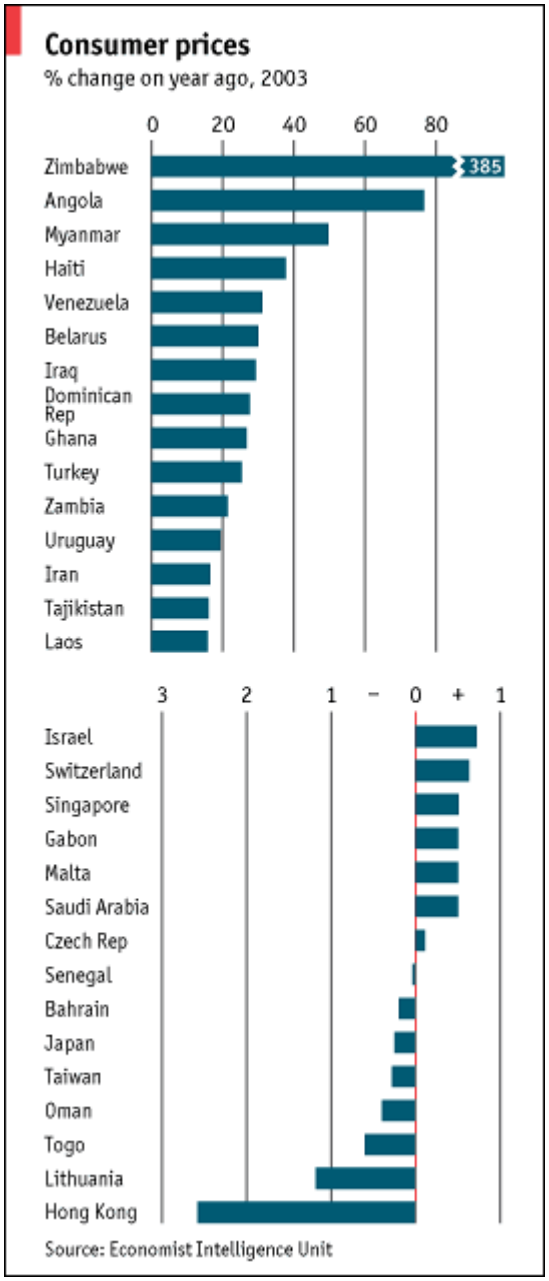
Consumer prices

May 6th 2004
From The Economist print edition

Zimbabwe had the world's highest rate of inflation in 2003. With the economy in free fall, consumer prices almost quintupled. Angola came second, with consumer prices rising by over 75%. Myanmar, Haiti, Venezuela and Belarus all hit inflation rates of 30% or more. At the other extreme, Hong Kong's consumer prices fell by 2.6%, and Lithuania's by 1.2% during 2003.



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Economy

May 6th 2004
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.7	Q1	+19.4	Mar	+ 3.0	Mar	+18.0	Mar	+45.9	2003	439.8	Mar
Hong Kong	+ 5.0	Q4	– 6.1	Q4	– 2.1	Mar	–10.3	Mar	+17.4	Q4	123.8	Mar
India	+10.4	Q4	+ 7.4	Feb	+ 3.5	Mar	–15.4	Mar	+ 3.2	Q4	106.1	Mar
Indonesia	+ 4.4	Q4	+ 5.1	Jan	+ 5.9	Apr	+28.3	Mar	+ 7.8	Q3	36.1	Mar
Malaysia	+ 6.4	Q4	+11.1	Feb	+ 1.0	Mar	+20.6	Mar	+12.3	Q4	50.4	Mar
Philippines	+ 4.5	Q4	nil	Feb	+ 4.1	Apr	– 1.8	Feb	+ 3.3	Dec	13.0	Mar
Singapore	+ 7.3	Q1	+ 2.0	Mar	+ 1.3	Mar	+15.7	Mar	+28.2	Q4	102.7	Mar
South Korea	+ 3.9	Q4	+11.6	Mar	+ 3.3	Apr	+24.0	Mar	+20.4	Mar	163.6	Mar
Taiwan	+ 5.2	Q4	+15.7	Mar	+ 0.9	Apr	+15.3	Mar	+28.6	Q4	227.7	Apr
Thailand	+ 7.8	Q4	+16.4	Feb	+ 2.5	Apr	+ 3.4	Mar	+ 7.9	Feb	41.9	Mar
Argentina	+11.3	Q4	+12.4	Mar	+ 3.1	Apr	+14.5	Feb	+ 7.9	Q4	15.8	Apr
Brazil	– 0.1	Q4	+ 1.8	Feb	+ 5.9	Mar	+27.4	Apr	+ 5.7	Mar	51.6	Mar
Chile	+ 3.3	Q4	+ 7.8	Mar	– 0.3	Apr	+ 4.2	Mar	– 0.6	Q4	15.9	Mar
Colombia	+ 4.3	Q4	+ 6.1	Feb	+ 5.5	Apr	+ 0.3	Jan	– 1.4	Q4	11.3	Mar
Mexico	+ 2.0	Q4	+ 2.2	Feb	+ 4.2	Mar	– 6.0	Mar	– 9.2	Q4	63.1	Feb
Peru	+ 4.1	Feb	+ 2.2	Feb	+ 2.8	Apr	+ 1.0	Feb	– 1.1	Q4	9.7	Mar
Venezuela	+ 9.0	Q4	+100.4	Jan	+23.1	Apr	+15.0	Q4	+ 9.6	Q4	17.2	Feb
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Q4†	+ 3.9	Q4†	13.6	Feb
Israel	– 0.6	Q4	+ 8.8	Feb	– 2.7	Mar	– 5.7	Mar	– 0.2	Q4	27.0	Apr
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.4	Mar	+ 2.0	Mar	– 1.5	Q4	8.3	Mar
Turkey	+ 6.1	Q4	+15.6	Feb	+10.2	Apr	–23.7	Feb	– 7.2	Jan	32.9	Mar
Czech Republic	+ 3.1	Q4	+ 7.1	Feb	+ 2.5	Mar	– 2.4	Mar	– 5.7	Q4	27.0	Mar
Hungary	+ 3.6	Q4	+12.8	Mar	+ 6.7	Mar	– 3.7	Feb	– 6.0	Feb	12.3	Mar
Poland	+ 4.7	Q4	+23.8	Mar	+ 1.7	Mar	– 5.3	Feb	– 3.7	Feb	35.3	Mar
Russia	+ 6.2	Q3	+ 6.6	Mar	+10.4	Apr	+63.0	Feb	+35.3	Q1	79.6	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.7	Q4	+ 5.2	Mar	+ 0.4	Mar	– 2.0	Feb	– 1.2	Q4	1.3	Feb
Latvia	+ 7.4	Q4	+ 8.5	Feb	+ 4.8	Mar	– 2.1	Feb	– 1.0	Feb	1.4	Feb
Lithuania	+ 7.5	Q1	na		– 1.0	Mar	– 2.8	Feb	– 1.2	Q4	3.2	Feb
Slovakia	+ 4.7	Q4	+ 7.8	Feb	+ 8.2	Mar	– 0.5	Mar	nil	Feb	12.3	Feb
Slovenia	+ 2.5	Q4	– 0.2	Feb	+ 3.5	Mar	– 0.8	Feb‡	nil	Feb	8.6	Jan
Pakistan	+ 5.1	2003†	–13.3	Dec	+ 5.3	Mar	– 1.9	Apr	+ 3.6	Q4†	11.5	Mar
Saudi Arabia	+ 6.4	2003	na		+ 0.4	Feb	+42.6	2002	+11.9	2002	23.9	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

May 6th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 5th		Dec 31st 2003	
	May 5th	year ago	May 5th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.8	2.90	1,673.4	– 0.7	+ 6.6	+ 6.6
Hong Kong	7.80	7.80	14.0	0.33	11,950.5	– 1.8	– 5.0	– 5.4
India	44.5	47.2	79.7	4.37	5,686.2	– 0.5	– 2.6	– 0.2
Indonesia	8,693	8,503	15,552	7.53	758.1	– 7.3	+ 9.6	+ 6.2
Malaysia	3.80	3.80	6.80	3.03	846.7	– 1.7	+ 6.6	+ 6.6
Philippines	55.4	52.0	99.2	7.56	1,562.1	– 3.0	+ 8.3	+ 8.5
Singapore	1.68	1.74	3.01	0.75	1,879.4	+ 1.7	+ 6.5	+ 7.4
South Korea	1,168	1,199	2,089	3.90	867.5	– 3.8	+ 7.0	+ 9.2
Taiwan	33.1	34.7	59.2	1.10	5,854.2	–11.0	– 0.6	+ 1.9
Thailand	39.8	42.5	71.2	1.29	644.1	– 4.2	– 16.6	– 16.9
Argentina	2.86	2.81	5.12	2.94	1,082.9	– 4.4	+ 1.0	+ 3.5
Brazil	2.97	2.97	5.31	15.80	20,026.2	– 2.2	– 9.9	– 12.4
Chile	622	694	1,112	1.68	7,336.4	– 0.7	nil	– 4.7
Colombia	2,655	2,865	4,750	7.75	3,343.5	– 2.8	+ 43.3	+ 50.0
Mexico	11.4	10.2	20.4	6.47	10,114.5	– 1.2	+ 15.0	+ 13.4
Peru	3.48	3.47	6.23	2.53	2,897.1	+ 1.2	+ 19.0	+ 18.4
Venezuela	2,909§	1,598	5,204	15.69	25,910.2	+ 0.8	+ 16.7	+ 14.4
Egypt	6.18	5.96	11.05	10.15	15,893.8	+ 2.5	+ 36.6	+ 36.4
Israel	4.57	4.45	8.18	1.00	577.4	– 0.3	+ 8.0	+ 3.9
South Africa	6.85	7.30	12.2	8.20	10,574.8	– 0.3	+ 1.8	– 0.7
Turkey	1,440,500	1,534,000	2,577,199	23.09**	18,272.4	+ 0.2	– 1.9	– 4.3
Czech Republic	26.5	27.6	47.5	2.11	794.4	– 6.6	+ 20.5	+ 16.6
Hungary	207	216	370	11.41	11,154.1	– 0.7	+ 18.9	+ 19.2
Poland	3.92	3.80	7.01	6.08	24,126.0	– 1.9	+ 15.9	+ 10.7
Russia	28.9	31.1	51.7	14.00	636.4‡	– 5.1	+ 10.8	+ 12.2
EMF (MSCI)*	1.00	1.00	1.79	na	446.1	– 3.7	+ 0.8	+ 0.8
EMBI+†	1.00	1.00	1.79	na	284.0	– 0.9	– 3.7	– 3.7

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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